

Australian Accounting Standards Board
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To the members of the Board

We appreciate the invitation to comment on the 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. We have considered all questions but limited our response to those where we have specific views and/or opinions.

Consultation Paper Questions

Section 1 – Post-Implementation Review

Topic 1 Overall objective and assessment of AASB 2020-2

Topic 2 Overall objective and assessment of AASB 1060

In summary, for both Topic 1 and Topic 2, we believe, for Questions 1 & 2:

- a The overall objectives have been met;
- b The costs of adoption were broadly in line with expectations; and
- c Ongoing costs of applying the Standards are broadly in line with expectations.

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

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

In summary, for both Topic 3 and Topic 4, we believe, for Questions 3 & 4:

- a Transitional relief was widely utilised; and
- b Achieved its objective.

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Topic 5 Educational materials

In summary, with regards to Questions 5 & 6, we believe that the educational initiatives prepared by AASB staff were helpful.

- 7 The primary difficulty encountered by preparers generally relate to the application of a standard to a specific fact pattern. While addressing situation-specific queries where the outcome is a matter of application of the standard and associated accounting judgements, and is thus typically outside the scope of the AASB, the wider industry may benefit from increased interaction with industry bodies in order to support those bodies in the production of non-authoritative guidance; for instance, anonymised responses to queries raised to those industry bodies or, where appropriate, to the AASB staff directly.

Topic 6 Disclosure of individually material items

- 8 In summary, we do not consider the absence of such a requirement to have led to any significant problems in preparing Tier 2 general purpose financial statements.
- 9 If consistent feedback has been received, we recommend the AASB consider such a change in conjunction with other minor improvements to the standard.

Topic 7 Adequacy of disclosure requirements

- 10 The absence of specific disclosure requirements for individually material items has led to inconsistency in disclosure for specific transactions due to the implication that a preparer may apply judgement as to whether a specific transaction is material to the users of the financial statements. While the theoretical interaction of the definition of 'material' with disclosure may be expected to result in identical information being disclosed regardless of whether a specific item is required by a standard, in practice disclosure required by Australian Accounting Standards are typically included 'by default'.

Practice would indicate that preparers are unlikely to 'opt in' or 'opt out' disclosure and instead disclose only that information mandated by AAS and is most prevalent when inputs to significant estimates are disclosed, in particular in relation to estimates required by AASB 2, AASB 3, AASB 136, or AASB 136. The most significant of these are addressed by the requirements proposed in Table 2.1.1.

Section 2 – AASB 1060 Update

Topic 1 Potential amendments to AASB 1600 based on the third edition of the *IFRS for SMEs Accounting Standard*

We agree with the proposals in Questions 1.1, 1.2, and 1.3.

Topic 2 Potential effects of AASB 18 on AASB 1060

- 2.1 We agree the AASB should 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*.
- 2.2 We agree with replacing the AASB 101 presentation requirements in AASB 1060 with the AASB 18 classification and presentation requirements.
- 2.3 While both options have merits, we prefer Option B for the following reasons:
- AASB 18 is a standard of singular, clarified purpose (when compared to AASB 101);
 - AASB 18 is a standard of significant length, rendering it difficult to incorporate within AASB 1060 given the current structure of AASB 1060;
 - Maintenance of AASB 1060 is simplified; and
 - Significant investment has been made by standard setters to create explanatory materials for AASB 18 (or IFRS 18) which would not otherwise be applicable if the requirements of AASB 18 were included within the text of AASB 1060.

2.4 Where expenses are presented by function, we:

- (a) Believe that specified expenses should be disclosed by nature. The information required by paragraphs 83-85 of AASB 18 is generally information that is material to users, explaining matters such as the impact on capital expenditure on the results of the entity or the impact on employee structuring. Not requiring the disclosure of this information would result in omission of the information as 'not required'.
- (b) Do not believe that a qualitative description of the nature of expenses in each function line item will be of use to users, where the naming of that function line item is required to faithfully represent the nature of the underlying expenses. Such a requirement would potentially be excessive in a 'Tier 2' context.

2.5 Management -defined performance measures are, by nature, primarily focused on the information needs of providers of capital. As entities applying AASB 1060 are not typically not communicating with such investors in public forum, the requirements for MPMs to be disclosed may be considered excessive. In question is whether entities preparing financial statements to be utilised by a wider range of stakeholders, in particular where there is a disparate group of providers of capital, should be preparing Tier 2 GPFS.

2.6 No, such information should not be included. As not previously, Tier 2 GPFS are not prepared for a wide range of providers of capital, as a result such information should be considered in excess of the information requirements of users.

2.7 Generally, AASB 18 is no less suitable for use in the NFP space than for those for-profit entities preparing Tier 2 GPFS. Both groups are generally not preparing financial statements for use by a wide range of providers of capital. Therefore:

- We believe that the requirements to classifying income and expenses in five categories and associated matters be retained;
- We believe that the disclosure requirements regarding MPMs should be excluded; and
- Aggregation and disaggregation principles should be retained.

Topic 3 Disclosure requirements in IFRS 19

3.1 We do not consider it important for Tier 2 entities to be able to claim compliance with IFRS 19. The target users of IFRS 19 are subsidiaries of entities that prepare IFRS-compliant financial statements where those subsidiaries wish to prepare financial statements that comply with the recognition and measurement requirements of IFRS (rather than IFRS for SMEs) (Refer IFRS 19.BC2). The primary benefit described was removing the requirement to either (i) prepare full IFRS GPFS or (ii) maintain IFRS for SME-compliant books and records, while simultaneously preparing records compliant with IFRS.

In an Australian context, entities currently maintain books and records that comply with IFRS and are not mandated to prepare IFRS-compliant GPFS. As evidenced by the comparisons prepared by the AASB staff, a requirement for IFRS 19 compliance would necessitate an increase in disclosure – effectively resetting the baseline higher than it has been in the past (under AASB 1060 as currently formulated, the legacy Reduced Disclosure Regime, or as special purpose financial statements).

3.2 Given consistency of recognition and measurement, the core difference between IFRS 19 and AASB 1060 is limited to disclosure; as a result, we would prefer one of two options be considered:

Option C – being retention of AASB 1060 without adoption of IFRS 19; or

Option D – being adoption of IFRS 19 as an optional alternative to applying AASB 1060.

Under Option C, we would recommend that educational materials be prepared and maintained which describe the incremental changes required to prepare IFRS 19-compliant GPFS. These materials would permit preparers to comply with AASB 1060 while simultaneously complying with IFRS 19 and include the ability to make such a statement of compliance (while not mandating it).

Under Option D, we would recommend that IFRS 19 be adopted in a manner that is 'Australianised' – that is, with additional 'Aus' paragraphs to ensure that those disclosures required by law, or otherwise required by the AASB, are appropriately described.

These options are preferred as, in our opinion, the needs of users are met through the application of AASB 1060 and, in a period of increasing pressure on preparers of financial statements, the introduction of additional disclosure burden may not provide an appropriate benefit commensurate with the costs of adoption / implementation or ongoing maintenance.

Conclusion

Grant Thornton appreciates the opportunity to provide feedback to the Board on both the PIR of AASB 1060 and the further updates to the Tier 2 framework. We look forward to continuing to engage with the AASB in the future.

Yours sincerely

Grant Thornton Audit Pty Ltd

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