



Australian Government

Australian Accounting Standards Board

AASB Roundtable: ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

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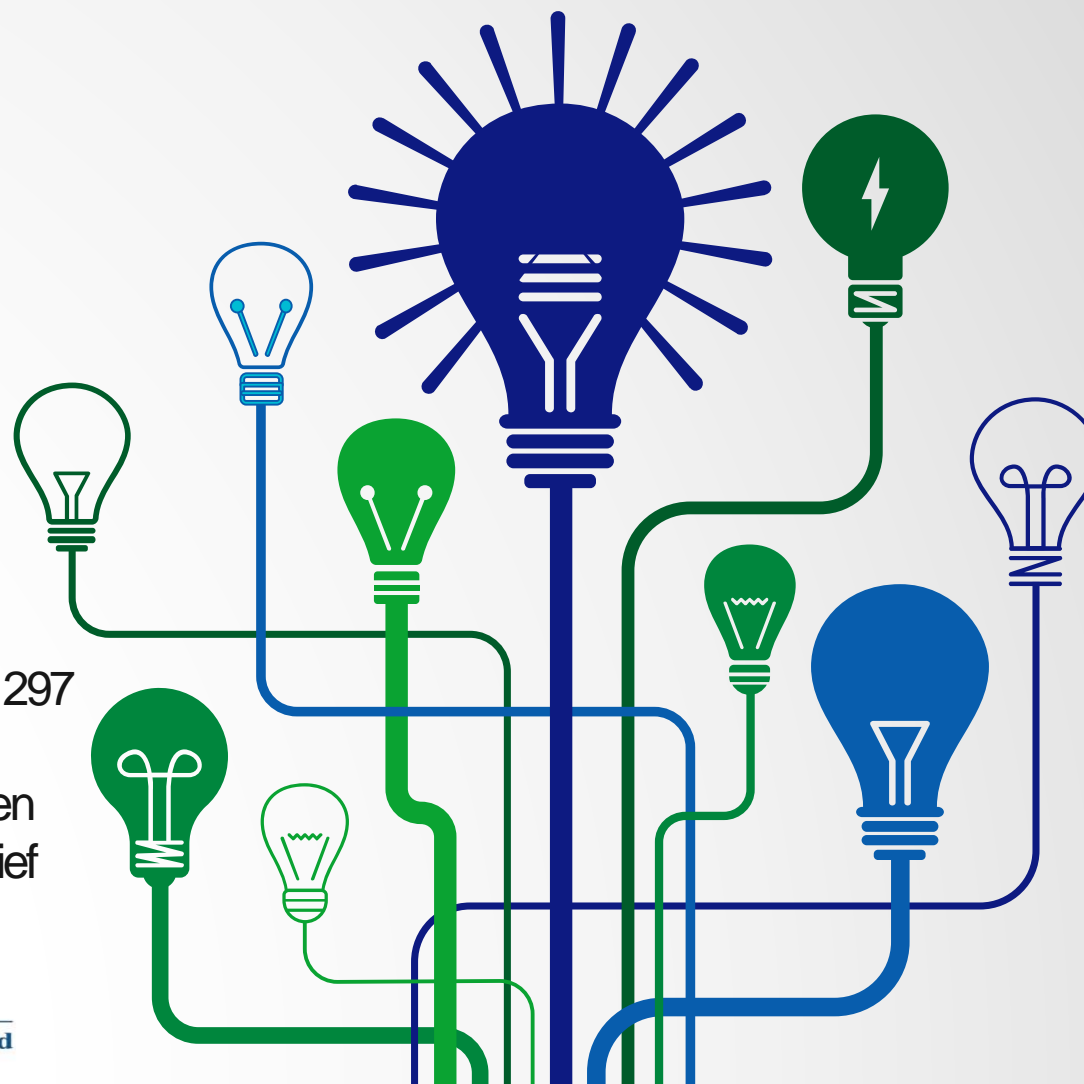
- Objective of today's session
- Why we need to make changes
- Who is impacted
- What we are proposing
- Transition relief
- Worked examples
- Timeline and proposed effective date
- Facilitated discussion





Education

- What is proposed in ED 297 and why
- Who is affected and when
- Proposed transitional relief



Feedback

- Scope
- Exemptions
- Transitional relief
- Other issues to consider



What We Are Proposing



Removing the ability for certain for-profit private sector entities to prepare SPFS



New Tier 2: Simplified Disclosure Standard (next session)



Relief from restating and presenting comparative information in the year of transition



All for-profit private sector entities within the scope of the proposals will prepare some form of GPFS



Proposed effective date – annual periods beginning on or after 1 July 2020 with early adoption permitted



To create simple, objective, consistent, comparable, transparent and enforceable financial reporting framework

Mandate ASIC RG 85

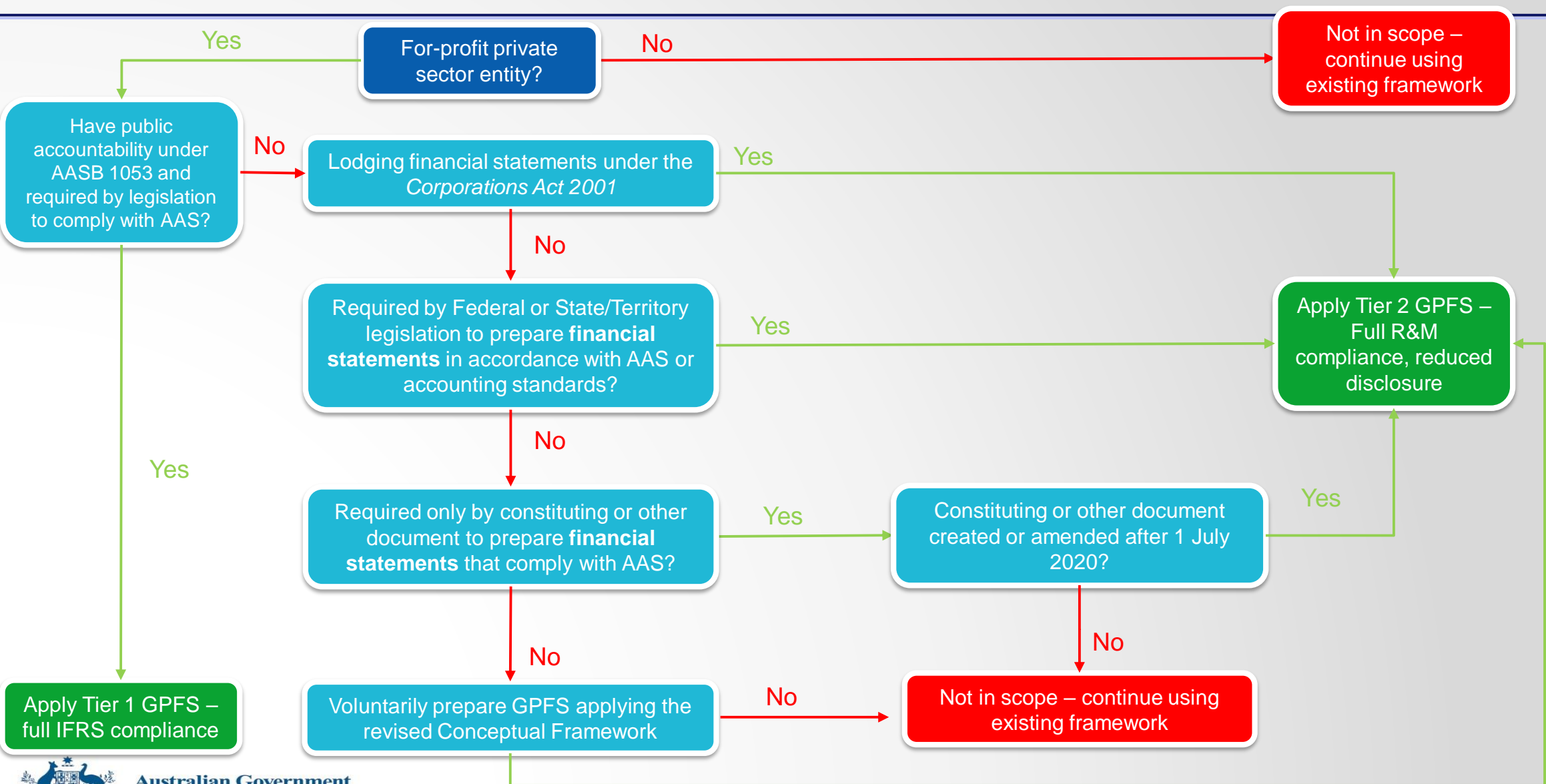
The SPFS Problem



The Reporting Entity Clash



Who Is In The Scope?



RG 85 R&M requirements

- Non-reporting entities should comply with R&M in AAS to determine financial position as per *Corporations Act*
- Directors should consider disclosures to give a T&F view
- Reduces risk for directors, auditors and regulators

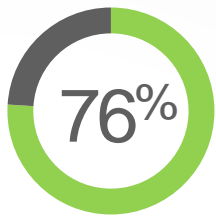


Current SPFS

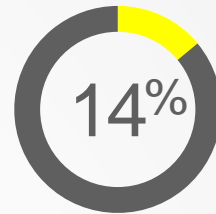
- R&M requirements not currently applied by 600-1700 entities
- Inconsistent application of R&M means SPFS **not** currently consistent, comparable, transparent or enforceable
- Application of reporting entity concept – difficult to enforce
- Diversity in practice regarding consolidation and equity accounting



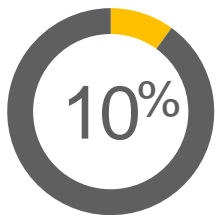
Specified entities lodging SPFS with ASIC in 2018 – prior to large proprietary company threshold increase



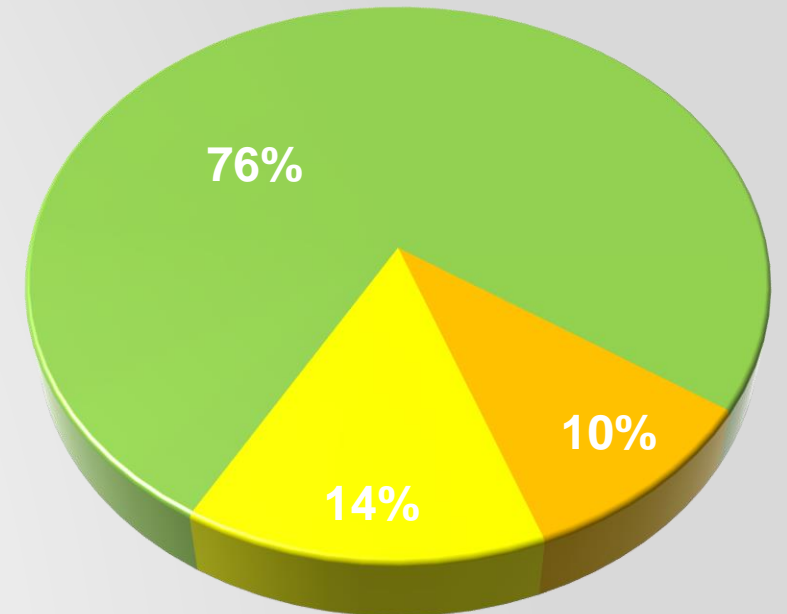
9,726 entities clearly **complied** with R&M



1,792 entities were **not clear** about compliance with R&M



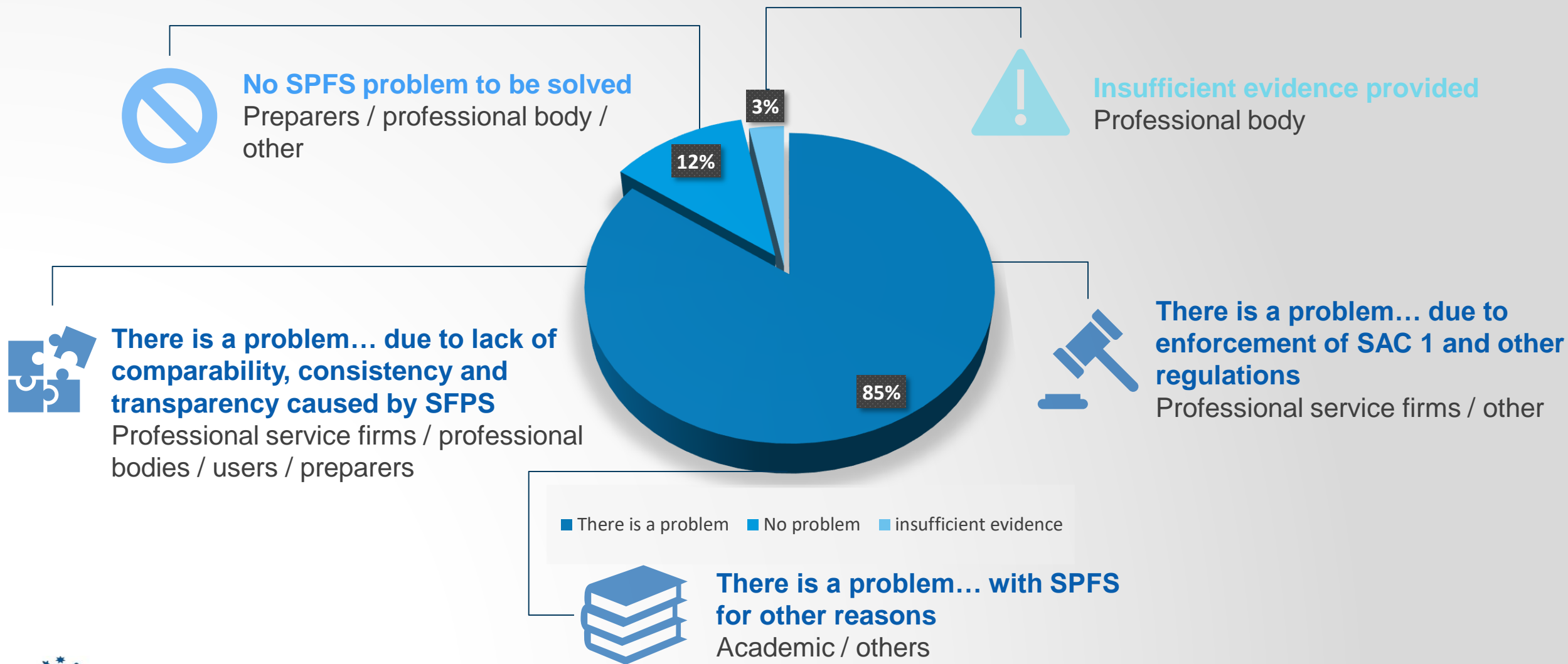
1,279 entities **did not** comply with R&M



*we understand this data has changed after the Treasury increase of large proprietary company thresholds (see slide 16), however this data formed our basis!



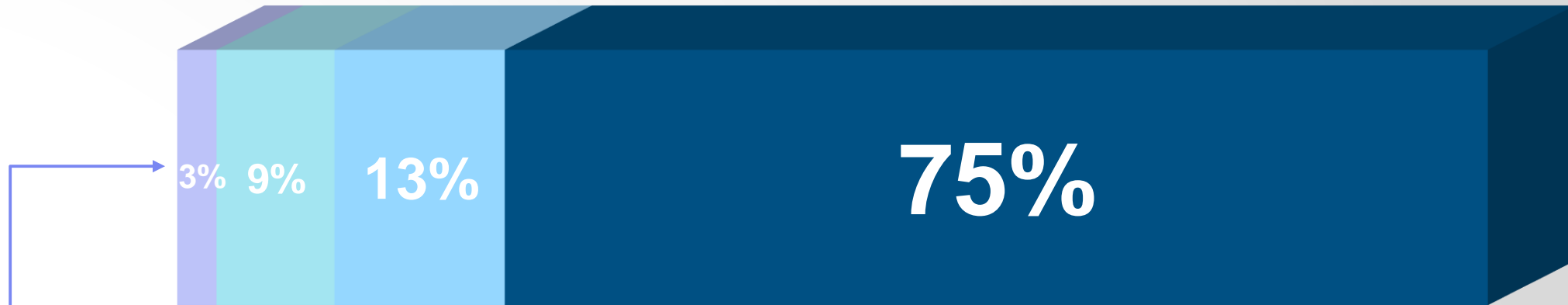
Is there an SPFS Problem? – Responses ITC 39



ITC 39: Should all GPFS require full R&M in AAS?

Wanted IFRS for SMEs as the Tier 2 GPFS framework

Supported full R&M in AAS

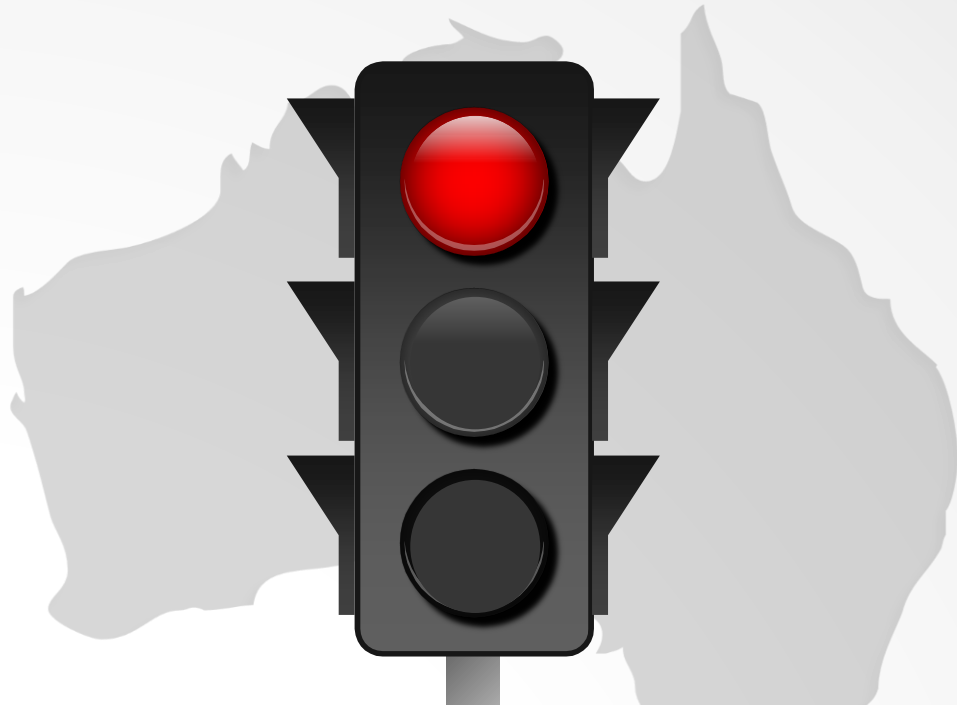


Supported retaining the current SPFS framework (no R&M)

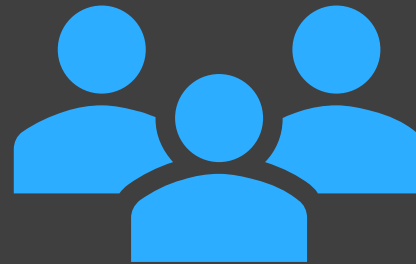
Wanted GPFS with differential R&M explored



The SPFS Problem



Two similar entities might prepare very different sets of financial statements



93% Primary users

Existing and potential investors, lenders and other creditors



95% Other users

Other parties such as public interest groups, regulators, and employees

said **comparability, transparency, comprehensibility and consistency** are paramount



The Australian 'reporting entity' concept in SAC 1

Determines who should prepare GPFS

The IASB's revised *Conceptual Framework* 'reporting entity' definition

Determines the boundary of what is reported (i.e. consolidation of controlled entities)

SAC 1 reporting entity concept led to confusion and diversity in practice regarding consolidation and equity accounting



Economic Significance

Doubling the thresholds

To reflect that entities over these thresholds have economic significance



SAC 1

Economic significance is a key criterion of SAC 1 for determining a 'reporting entity'

Publicly available reports

Because of their size and potential to affect the community and the economy



Explanatory Memorandum

Hard for directors to self-assess not having users as set out by the Explanatory Memorandum the larger the size, the more likely GPFS users exist. Average access rate of financial statements:

- 3.6 for large pty companies
- 1.8 for companies below revised threshold

Slide 16 shows the impact after threshold increase

In scope

Lodging FS with *Corporations Act 2001*

- Large Pty
- Unlisted public companies other than small companies limited by guarantee
- Small Pty companies controlled by a foreign company
- Financial services licensees
- Small Pty companies with crowd-sourced funding

Entities required by legislation

- Prepare FS in accordance with AAS or accounting standards

Entities required by constituting or other document

- Existing entities – constituting or other document amended on or after 1 July 2020
- New entities - constituting or other document created on or after 1 July 2020

Entities that elect to prepare GPFS and elect to:

- apply the *Conceptual Framework for Financial Reporting* (i.e. the revised Conceptual Framework)

Including grandfathered large proprietary entities, which are required to prepare financial statements but exempt from lodging them.

e.g. co-operatives / incorporated associations / higher education providers / casino licensees (SA) / certain building licensees (QLD)

e.g. trusts / partnerships / joint arrangements / self-managed superannuation funds

e.g. for-profit public-sector entities or other for-profit private sector entities



Out of scope

- **Not-for-profit entities**
- **Public sector entities**

Entities required by legislation

- Prepare FS that gives true and fair (T&F) view without reference to compliance with AAS or accounting standards
- Prepare FI in accordance with AAS or accounting standards but not required in para 10 of AASB 101
- Prepare FI that gives T&F view but not to prepare FS in para 10 of AASB 101
- Prepare FI without reference to AAS or accounting standards
- Keep financial records but not prepare FS

Entities required by constituting or other document

- existing entities – constituting or other document not created or amended on or after 1 July 2020

Entities required by only their constituting or other document

Entities that elect to prepare GPFS and elect to:

- apply the *Framework for the Preparation and Presentation of Financial Statements*

e.g. gaming venue operators / internet gaming licensees

e.g. friendly societies / superannuation funds / retirement villages

e.g. incorporated associations / housing societies

e.g. for provision to a regulator

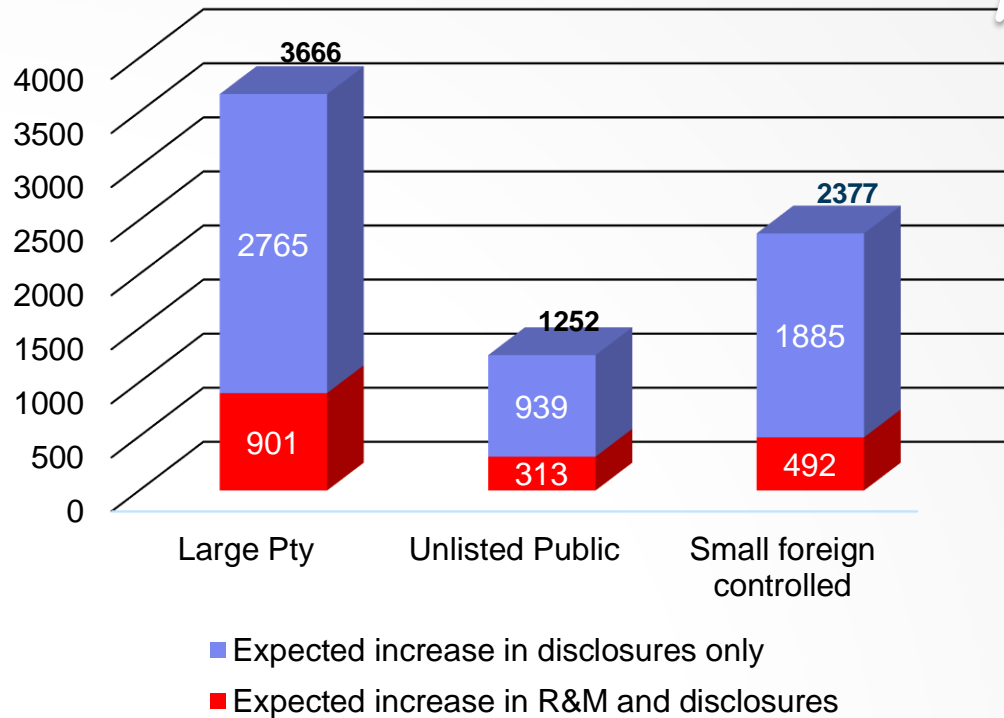
e.g. small pty not required by Corps Act to prepare financial statements

e.g. trusts / partnerships / joint arrangements / self-managed superannuation funds

e.g. for-profit public sector entities or other for-profit private sector entities



Maximum number of entities currently preparing SPFS that could be impacted – **post** threshold increase



7295 Entities



Currently preparing GPFS



May **Decrease** disclosure requirements



Simplified Disclosures for Tier 2 Entities



Increase in disclosures only

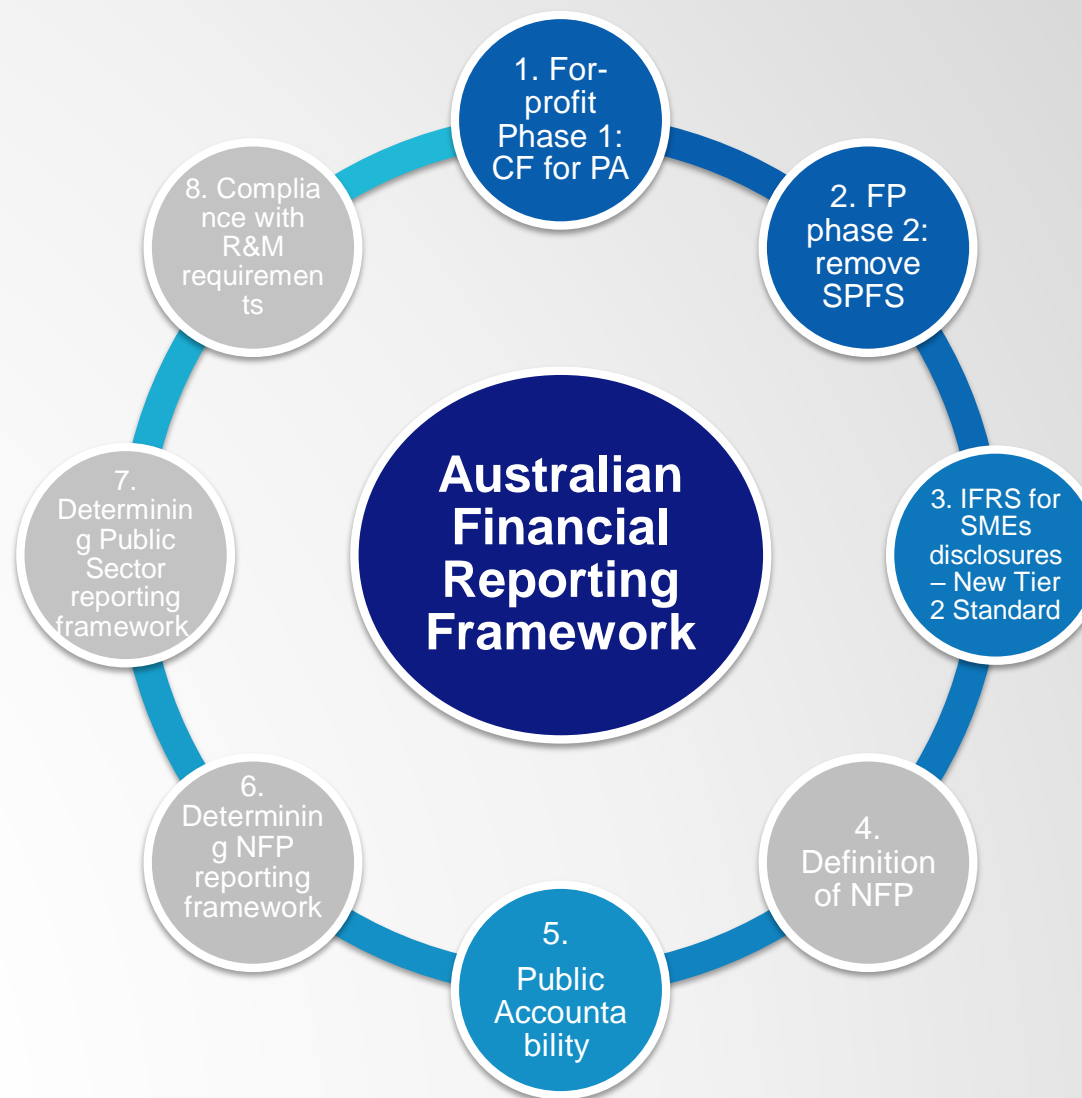
Increase in disclosures and R&M



Currently preparing SPFS



Projects to be aware of



Why we are offering...



Reduces preparation costs whilst providing a consistent, enforceable and transparent reporting framework



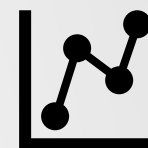
Facilitate the transition to GPFS in a more timely manner

Short-term relief from restating and presenting comparative information in the year of transition

What you present...



2 statements of financial position (closing balance & adjusted opening balance of the current year) & last SPFS statement of financial position in the notes with description of the adjustments made to get the opening balance



Statement of P&L and OCI as presented in most recent SPFS as comparative information, but clearly label such comparative information as not AAS compliant

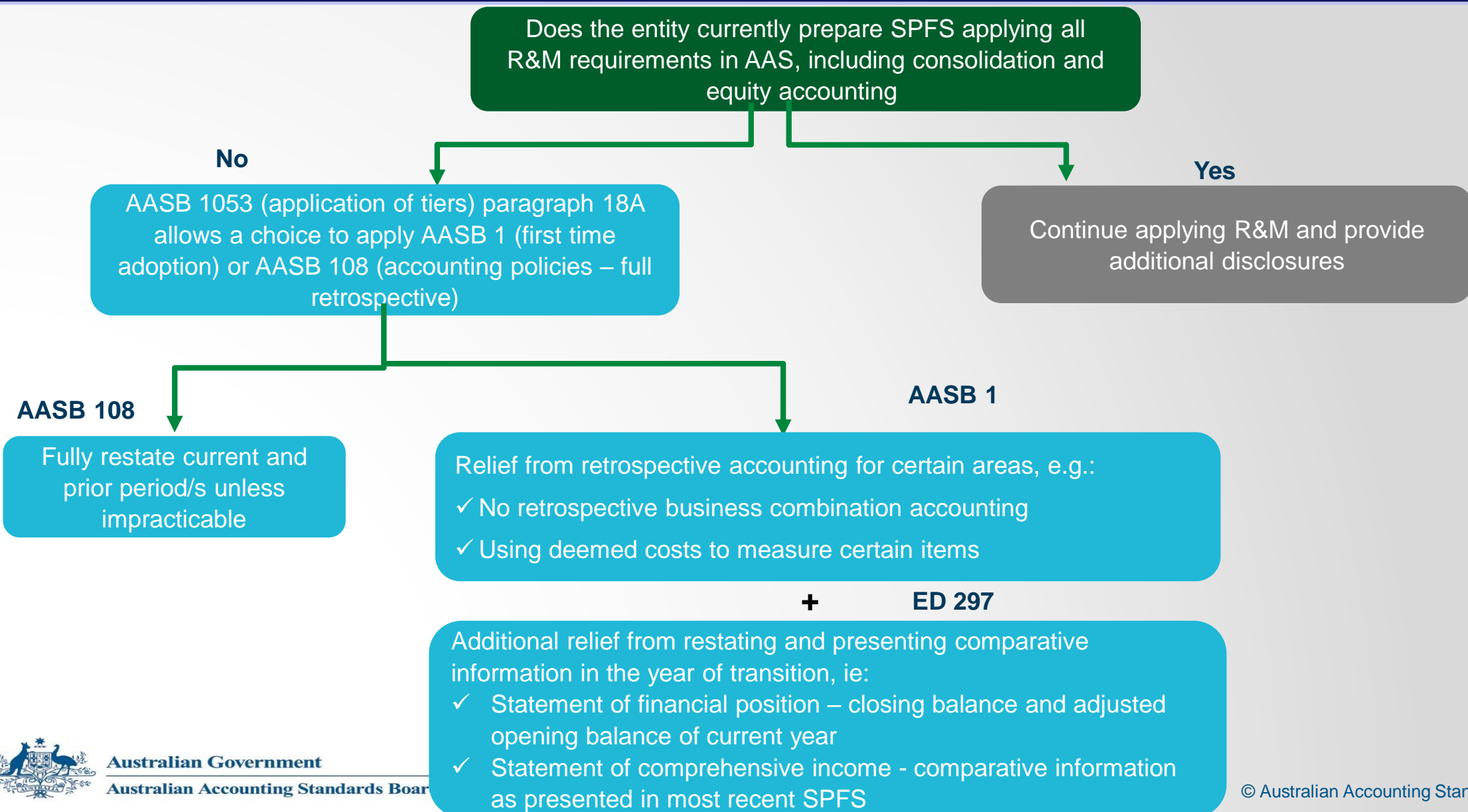
Short-term exemption from restating comparative information

	30 June 2021 year end		31 December 2021 year end		30 June 2022 year ends onwards
	<i>Current period</i>	<i>Comparative period</i>	<i>Current period</i>	<i>Comparative period</i>	
Statement of financial position (SOFP)	30/06/2021	1/07/2020	31/12/2021	1/1/2021	The short-term exemption no longer applies.
Statement of profit or loss and OCI (P&L)	30/06/2021	30/06/2020*	31/12/2021	31/12/2020*	
Notes to the financial statements	<ul style="list-style-type: none"> • SOFP per most recent SPFS* • Description of the main adjustment required on transition to GPFS for SOFP and P&L (quantification not required) 				

* This information is taken from the entity's most recent SPFS (and therefore may not comply with AAS)



Decision tree - transition



Worked Example – Consolidation

(where the R&M requirements in AAS have not previously been applied in full)

Choice of...

	AASB 1 + ED 297 transitional relief	or	AASB 10 (via AASB 108)
Retrospective application?	Not required to restate for past business combinations, no comparatives presented.		Yes, unless impracticable.
Which acquisition?	Not required to restate for any prior acquisitions, no comparatives presented.		Each acquisition, therefore need to assess each acquisition for impracticability.
When does the entity determine which subsidiaries to account for?	Date of transition (ie beginning of the current period).		Beginning of current period.
When are transition adjustments made?	Date of transition (ie beginning of the current period).		Adjustments are applied retrospectively from the acquisition date, however, if impracticable, deemed acquisition date is the beginning of earliest period practicable.
What adjustments are required?	<p>Step 1: Measure the subsidiary's net assets in accordance with the relevant AAS.</p> <p>Step 2: Recognise parent share of subsidiary net assets in consolidated financial statements based on net assets from Step 1.</p> <p>Step 3: The difference between the carrying amount of the investment in parent separate financial statements and parent share of subsidiary net assets is recognised as deemed goodwill.</p> <p>A bargain purchase is recognised in retained earnings.</p>		<p>Step 1: Apply acquisition method for each subsidiary (i.e. determine FV of each subsidiary's identifiable net assets at acquisition date).</p> <p>Step 2: Roll values determined in Step 1 forward to the beginning of immediately preceding period, if one year of comparatives are provided.</p> <p>Step 3: The difference between the values determined in Step 2 and the carrying amount of the investment in parent separate financial statements at the beginning of the immediately preceding period are recognised in equity.</p> <p>(If Step 1 is impracticable at the date of acquisition, then Steps 1 to 3 are undertaken at the deemed acquisition date).</p>



Worked example – PPE and deferred tax

- AASB 1 allows an entity to elect to measure an item of PPE at the date of transition at fair value and use that fair value as deemed cost.
- Company P elects to adopt this exemption for land ⇒ fair value at date of transition (1 July 2020) becomes deemed cost.
- The tax base applicable remains equal to their carrying value (historical cost) ⇒ Company P recognises a deferred tax liability

	Carrying amount per SPFS at date of transition	Fair value at date of transition	Difference
Land	\$9,000	\$11,000	\$2,000

DR: Land	\$2,000
CR: Deferred tax liability*	\$600
CR: Retained earnings	\$1,400

* calculated as 30% of the fair value increment of \$2,000 (assuming a 30% company tax rate) representing tax payable for accounting purposes in a future period

Worked example – PPE and deferred tax (cont)

- Below is the extract from the entity's first statement of financial position (transitional relief from ED 297 not to disclose comparatives applied) :

	Note	30 June 2021	1 July 2020 restated
Land	1	11,000	11,000
Equity		x	1,400
Deferred tax liability		x	600

Note 1

At 30 June 2020 the entity transitioned from SPFS to Tier 2 GPFS and the key adjustment was remeasurement of land to its fair value and using the fair value as deemed cost.

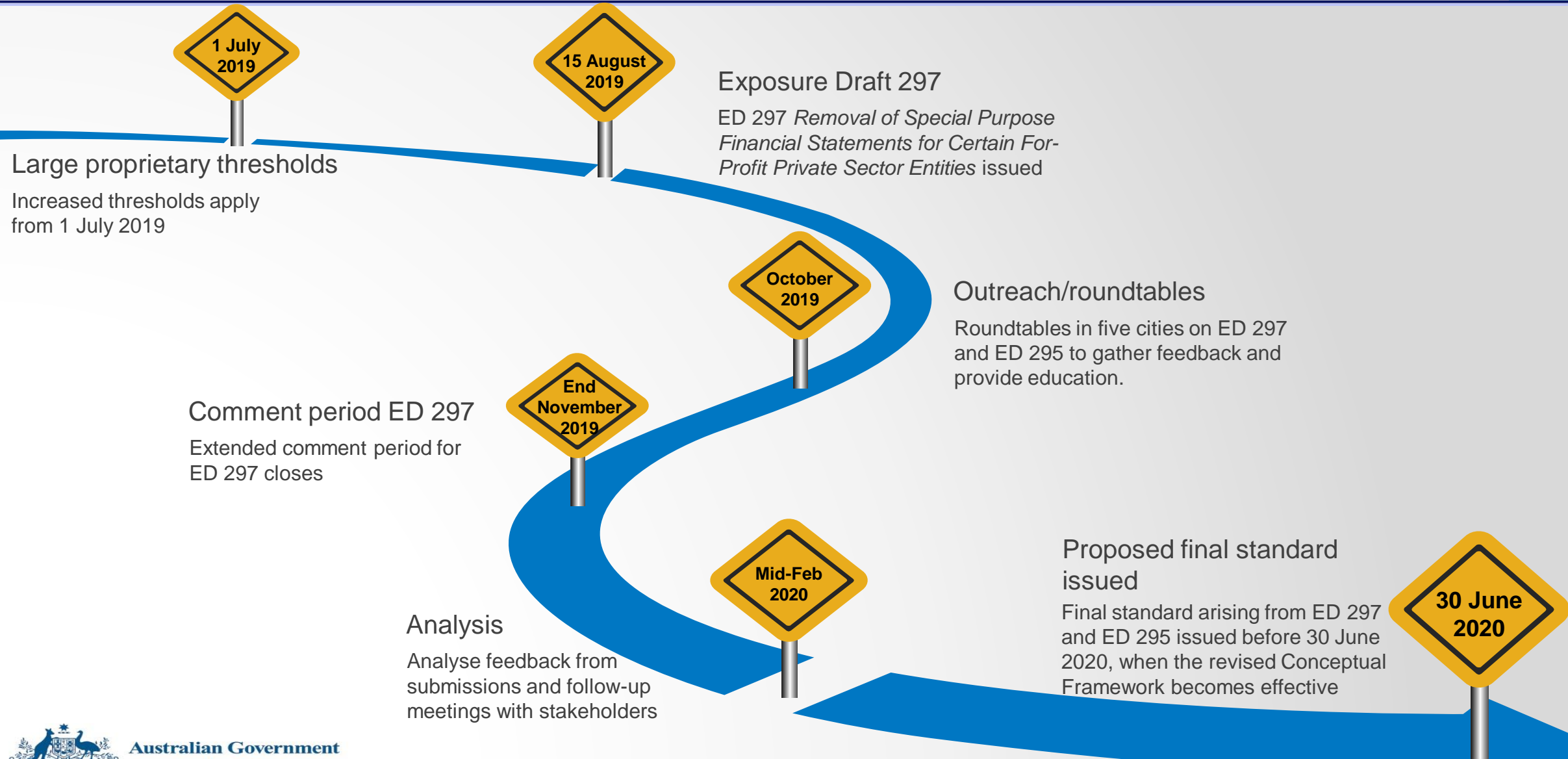
Closing balances reported at 30 June 2020 are disclosed below.



- Auditors to evaluate:
 - ASA 210 – precondition to accepting engagement, determine whether the financial reporting framework (FRF) is acceptable.
 - ASA 700 – evaluate whether:
 - significant accounting policies have been appropriately disclosed and they are consistent with the financial reporting framework; and
 - the financial report adequately refers to or describes the financial reporting framework.
- Form an opinion on whether the financial report is prepared in accordance with the applicable FRF (e.g. Australian Accounting Standards – Simplified Disclosures).

* AUASB Bulletin: Auditors Responsibilities and the Financial Reporting Framework





- **Question 1** Do you agree no further transitional relief is required in addition to what is currently in AASB 1 and proposed in ED 297?
- **Question 2** If no, what other relief do you consider would be helpful to transition from SPFS to GPFS?
- **Question 3** What do you think the cost of transition would be from a typical set of SPFS to Tier 2 GPFS? Can you provide a breakdown of increase in preparation cost, audit cost and/or consultancy costs?
- **Question 4** Is the scope appropriate?
- **Question 5** Is the exemption for entities with a non-legislative requirement appropriate?





Make a submission to us

We would like to know your thoughts on the cost of transition and/or any examples you may have!



Tier 2 entities consider early adoption of Simplified Disclosures

- ✓ Reduction in disclosure compared to current RDR
- ✓ Option not to present a statement of changes in equity under certain circumstances
- ✓ Some additional disclosures not currently required
- ✓ Increase in disclosures if preparing SPFS



Large proprietary companies

Hard for directors to self-assess not having users as set out by the Explanatory Memorandum the larger the size, the more likely GPFS users exist.





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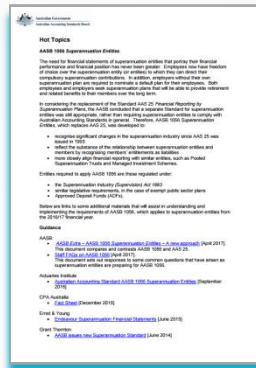
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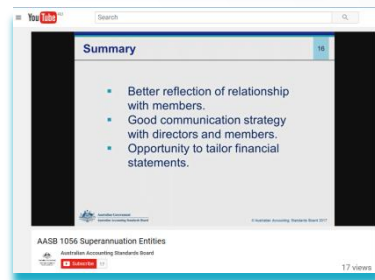




- Staff papers and research reports



- Hot Topics – guidance and reference material on the latest developments in standard setting



- YouTube channel – view AASB webinars & other recordings



Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

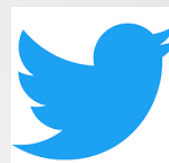
Work in Progress

- ✓ see Exposure Drafts & AASB submissions





Discussion group
AASB Alumni



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