

PRE-BALLOT DRAFT
For Board members comment at M171 (June 2019)

AASB Exposure Draft

ED 2019-XX
June 2019

Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements

Comments to the AASB by 19 August 2019

Commented [HF1]: Note to the Board 1: This is based on a “45 day” comment period (as decided by Board in April 2019) assuming that the ED is issued for public comment on 27 June 2019.



Australian Government

Australian Accounting
Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 19 August 2019.

Formal Submissions

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aaab.gov.au

Phone: (03) 9617 7600

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

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

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

Why we are making these proposals

The AASB's consultation on ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018) noted that Australia is the only jurisdiction with a 'reporting entity' concept that effectively permits entities to self-assess what type of financial reporting they do when they are required by legislation or otherwise (such as by a constitutional document) to prepare financial statements in accordance with accounting standards (issued by the Australian Accounting Standards Board).

Therefore, unlike other jurisdictions, in Australia two similar entities might prepare very different sets of financial statements, one preparing general purpose financial statements (GPFS) using a robust and consistent framework, and the other preparing special purpose financial statements (SPFS) with self-selected requirements.

As noted in the Basis for Conclusions of this Exposure Draft, the Board is aware of the view of some that this situation is acceptable because, by definition, users of SPFS can demand any information they need. However, the Board has received feedback that in practice that is often not the case and users require additional information so they can confidently assess an entity's level of compliance with the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements.

Users of financial statements also provided feedback through ITC 39, user surveys and participation of stakeholders at ITC 39 roundtable events noting the lack of, and need to improve comparability, consistency and transparency in SPFS.

In light of the Board's current broader project to remove the ability for entities to self-assess and choose the option of preparing SPFS when required to comply with Australian Accounting Standards (AAS) and replace them with GPFS, (in the first instance in the short term in relation to for-profit entities and, in due course, in relation to not-for-profit entities), the Board decided that an amendment to AAS to require entities preparing SPFS to make an unambiguous statement about their compliance with the recognition and measurement requirements in Australian Accounting Standards as an interim measure to address these concerns, was urgently needed to provide greater transparency to users of publicly lodged SPFS. This would also help entities assess their level of compliance with the recognition and measurement requirements in AAS in preparation for the transition from SPFS to GPFS when the option to prepare SPFS is removed for those required to comply with AAS.

What we are proposing

This Exposure Draft proposes that for-profit entities and not-for-profit entities who are directly (or indirectly) subject to the requirements of AASB 1054 *Australian Additional Disclosures* and who are preparing SPFS shall disclose:

- (a) the basis on which the decision was made to prepare SPFS;
- (b) if the entity has investments in a subsidiary and:
 - (i) whether all subsidiaries are consolidated in the financial statements and, if some or all subsidiaries are not consolidated, why they are not consolidated;
 - (ii) where those financial statements consolidate subsidiaries, whether there are any investments in associates or joint ventures, and whether they have been equity accounted in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*; and

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- (iii) where those financial statements do not consolidate some or all subsidiaries, if consolidated financial statements of the entity's parent are available where they can be accessed; and
- (c) whether the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in AAS, and if not, an indication of where they do not comply.

Application date

It is proposed that the amendments be applicable to annual periods ending on or after 30 June 2020, with early adoption permitted.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and based on the information received will determine whether the proposals should form the basis of the Amending Standard, with or without amendment. Depending on the nature and extent of the feedback the AASB may publish a Fatal Flaw Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 19 August 2019. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

- 1 Do you agree that an amendment to AAS to require entities to disclose information about SPFS, including compliance with the recognition and measurement requirements in AAS, is needed to provide more transparency to SPFS users of publicly lodged financial statements? If not, please provide reasons.
- 2 Do you agree that the proposed amendments should apply directly only to those entities lodging SPFS with ASIC under Part 2M.3 of the *Corporations Act 2001* (and indirectly to those entities required through legislation or otherwise to comply with AASB 1054 *Australian Additional Disclosures* (for example entities required by the *Australian Charities and Not-for-profits Commission Regulation 2013*))? If not, please provide reasons.
- 3 Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:
 - (a) the basis for the preparation of the special purpose financial statements (reflected in the proposed amendment to paragraph 9 of AASB 1054);
 - (b) information about consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (reflected in the proposed new paragraph 9A(a)(i) and (ii));
 - (c) information about whether consolidated financial statements of the entity's parent are available and where they can be accessed if the entity does not consolidate some or all subsidiaries (reflected in the proposed amendment to paragraph 9A(a)(iii)); and
 - (d) information about compliance with all the recognition and measurement requirements in AAS (including the requirement to disclose an indication of where they do not comply) (reflected in the proposed new paragraph 9A(b))?If you disagree with any aspect, please provide reasons.
- 4 The proposed Amending Standard includes Implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree that they provide appropriate illustration of the application of the disclosure requirements? If not, please provide reasons.
- 5 If the Amending Standard is issued before December 2019, do you agree with the proposed effective date of annual periods ending on or after 30 June 2020 (with early adoption permitted)? If not, please explain why.

Commented [KK2]: Note to the Board 2: Does the Board agree with the specific matters for comment currently included in the ED? If not, does the Board want any of the specific matters for comment removed or amended? Or does the Board want to include any other specific matter for comment?

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6 Do you have any other comments on the proposals?

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 7 Whether *The AASB's For-Profit Entity Standard Setting Framework* and *The AASB's Not-for-Profit Entity Standard Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?
- 8 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 9 Whether, overall, the proposals would result in special purpose financial statements that would be more useful to users?
- 10 Whether the proposals are in the best interests of the Australian economy?
- 11 Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

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PREFACE

[DRAFT] ACCOUNTING STANDARD
AASB 2019-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DISCLOSURE OF COMPLIANCE WITH RECOGNITION AND MEASUREMENT REQUIREMENTS

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[DRAFT] IMPLEMENTATION GUIDANCE AND ILLUSTRATIVE EXAMPLES

[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2019-X Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2019-X

This [draft] Standard makes amendments to AASB 1054 *Australian Additional Disclosures* (May 2011).

Main features of Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements

Main requirements

This [draft] Standard amends AASB 1054 *Australian Additional Disclosures* (May 2011) to require for-profit and not-for-profit entities that are required to apply AASB 1054 and preparing special purpose financial statements to disclose information that provides users of those financial statements with information about the entity's compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards.

In particular, the amendments to AASB 1054 require an entity to disclose:

- (a) the basis on which the decision was made to prepare special purpose financial statements;
- (b) if it has investments in a subsidiary and:
 - (i) whether all subsidiaries have been included in the consolidated financial statements, and if some or all subsidiaries have not been consolidated, why;
 - (ii) where the financial statements consolidate subsidiaries, whether there are any investments in associates or joint ventures and whether they have been accounted for in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*; and
 - (iii) where the financial statements do not consolidate some or all subsidiaries, if consolidated financial statements of the entity's parent are available and if so where they can be accessed; and
- (c) an explicit statement of whether the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards, and if not, an indication of where they do not comply.

Application date

This [draft] Standard applies to reporting periods ending on or after ... [30 June 2020], with early adoption permitted.

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[Draft] Accounting Standard AASB 2019-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-X *Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements* under section 334 of the Corporations Act 2001.

Kris Peach

Chair – AASB

Dated ... [date]

[Draft] Accounting Standard AASB 2019-X
Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements

Objective

- 1 This Standard amends AASB 1054 *Australian Additional Disclosures* (May 2011) to add requirements for for-profit and not-for-profit entities that apply AASB 1054 and are preparing special purpose financial statements to disclose information about those financial statements, including information that enables users of the financial statements to understand the extent of the entity's compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards.

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1054 as set out in paragraph 7 of AASB 1057 *Application of Australian Accounting Standards* (as amended).
- 3 This Standard applies to annual periods ending on or after ... [30 June 2020]. This Standard may be applied to annual periods beginning before ... [30 June 2020]. When an entity applies this Standard to such an annual period, it shall disclose that fact.
- 4 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 1054 *Australian Additional Disclosures*

- 5 Paragraph 9 is amended as follows (new text is underlined):
- 9 An entity shall disclose in the notes whether the financial statements are general purpose financial statements or *special purpose financial statements*, and if special purpose financial statements, the basis on which the decision was made to prepare such statements.
- 6 Paragraph 9A (including the footnote) and paragraph 9B, together with a related heading, are added immediately after paragraph 9 as follows:

Information about special purpose financial statements

- 9A An entity that prepares special purpose financial statements shall disclose in the notes:
- (a) ~~if~~ the entity has investments in a subsidiary¹ and:
- (i) whether all subsidiaries are consolidated in the financial statements and, if some or all subsidiaries are not consolidated, why they are ~~not consolidated~~;
- (ii) ~~where those financial statements consolidate subsidiaries, whether there are any investments in associates or joint ventures, and whether they have been~~

Commented [KK3]: Note to the Board 3: The Board did not make a decision to have this amendment at the last Board meeting. In practice, most entities do disclose the basis on which the financial statements are special purpose financial statements (for e.g. because there are unlikely to exist users who are unable to require reports tailored to their needs) and staff consider that it would be useful to make this a mandatory disclosure.
Does the Board agree to make this amendment?

Commented [KR4]: Note to the Board 4: This was originally drafted as 'whether or not' rather than 'if'. On reflection, staff think it is unnecessary for an entity that has no subsidiaries to be required to explicitly say so. Does the Board agree?

Commented [HF5]: Note to Board 5: At the April meeting, the Board did not consider whether it should require entities to identify subsidiaries that are not consolidated in cases where all or some of the subsidiaries are not consolidated. Staff consider that this information might be useful for users (similar to the requirement in 9A(b)). However staff also note, particularly in the NFP private sector, that some entities might not be able to identify all/some of their subsidiaries as they might not know how apply the requirements in AASB 10 Consolidated Financial Statements to determine their subsidiaries/controlled entities (refer to Example 5 in the Illustrative Example section, which illustrates this scenario). These entities might consider the requirement to identify the subsidiaries that have not been consolidated as quite burdensome. As such, on balance, staff do not recommend that the Board require such a disclosure.
Does the Board agree that it is not necessary to include such a requirement?

Commented [KR6]: Note to the Board 6: the question arises as to whether there should also be a requirement to disclose information about investments in associates and JVs in circumstances where an entity has subsidiaries but DOES NOT consolidate. Staff do not think that is necessary as if an entity has subsidiaries that are not consolidated, by extension it would imply it has not equity accounted its investments in associates and joint ventures. Does the Board agree? [If the Board were to disagree, the phrase "where those financial statements consolidated subsidiaries," would need to be deleted.]

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equity accounted in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*; and

- (iii) where those financial statements do not consolidate some or all subsidiaries, if consolidated financial statements of the entity's parent are available where they can be accessed.
- (b) whether the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards, and if not, an indication of where they do not comply.

¹ Section 45A of the *Corporations Act 2001* requires the assessment of thresholds for small and large proprietary companies to be determined on a consolidated basis (i.e. the parent and the entities it controls (subsidiaries)) in accordance with the accounting standards even if the standards do not otherwise apply to some or all of the companies concerned. For the purposes of this section, the question whether a proprietary company controls an entity is to be decided in accordance with the accounting standards (i.e. AASB 10 *Consolidated Financial Statements*) even if the standards do not otherwise apply to the company.

9B *Implementation guidance and illustrative examples* is attached to this Standard. It illustrates the application of the requirements in paragraphs 8 – 9A and their relationship to the requirements in paragraph 117 of AASB 101 *Presentation of Financial Statements*.

7 Non-mandatory *Implementation guidance and illustrative examples* (referred to in paragraph 9B of the amended AASB 1054) as set out on pages 10 to 16 are attached to AASB 1054

Commencement of the legislative instrument

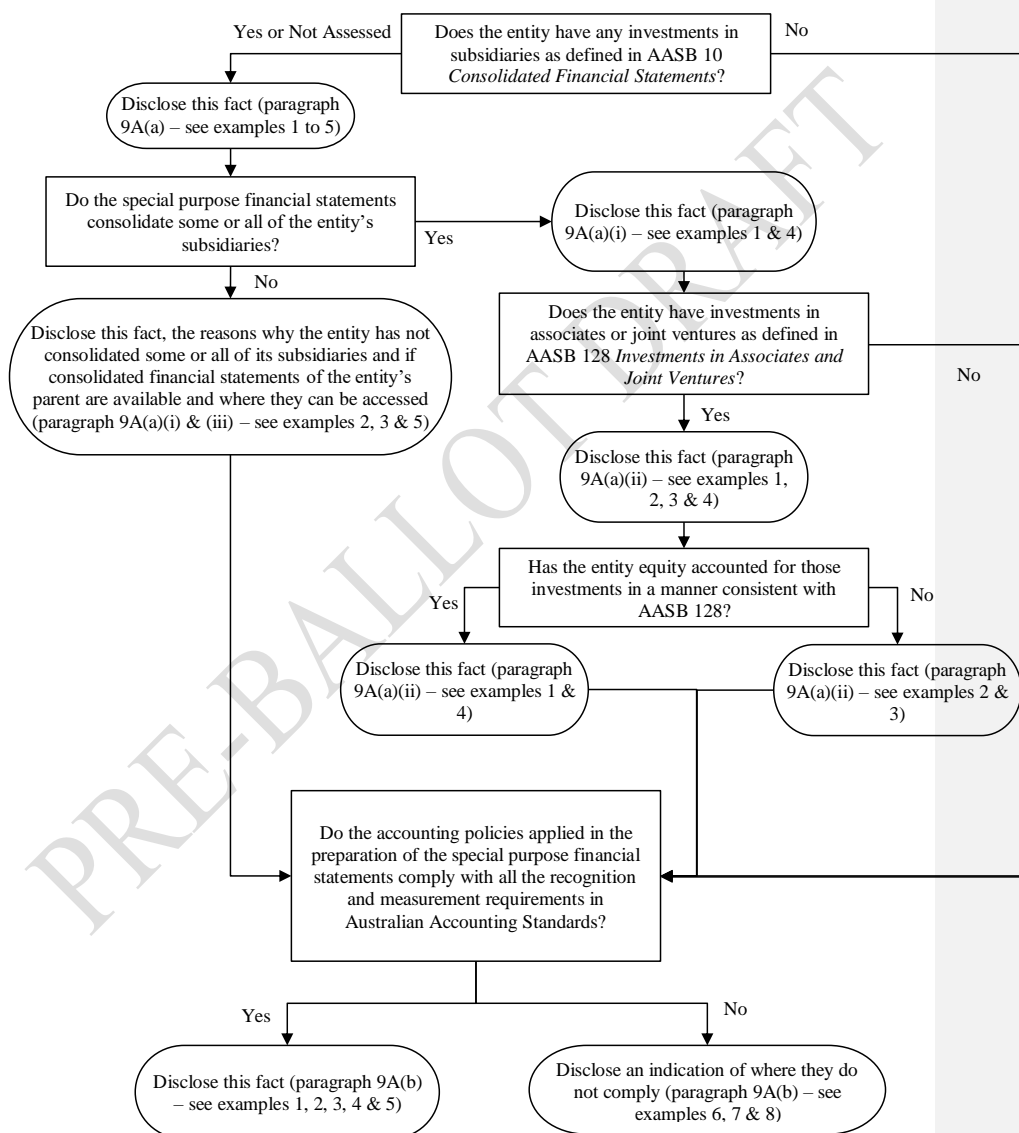
8 For legal purposes, this legislative instrument commences on ... [date].

Commented [KR7]: Note to the Board 7: The Board did not make an explicit decision to have this amendment at the last Board meeting. However, as staff were developing the Illustrative Examples relative to the requirement of paragraph 117 of AASB 101 to disclose significant accounting policies, we came to the conclusion that it is a necessary amendment to achieve the Board's overall objective for this project, as explained in paragraph BC11 of the draft Basis for Conclusions. We think the general nature of the requirement (rather than more precise language like "a description of the extent of non-compliance") is appropriate, particularly because of the explanation of the requirement and guidance that would be provided through the Implementation guidance and illustrative examples. Does the Board agree?

Implementation guidance and illustrative examples

The following Implementation guidance and illustrative examples accompany, but are not part of, AASB 1054 Australian Additional Disclosures. They illustrate aspects of AASB 1054, but are not intended to provide interpretative guidance.

IG1 The diagram below summarises some of the key decision in determining how to apply the disclosure requirements in paragraphs 9 and 9A of AASB 1054 in relation to special purpose financial statements.



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- IG2 Entities required to apply AASB 1054 in their special purpose financial statements (including those lodged with the Australian Securities and Investments Commission (ASIC) or the Australian Charities and Not-for-profits Commission (ACNC)), whether consolidated or unconsolidated, are also required to apply AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including:
- (a) paragraph 15 of AASB 101, which requires the fair presentation of financial statements;
 - (b) paragraphs 10-12 of AASB 108, which address the selection of accounting policies in the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition; and
 - (c) paragraph 117 of AASB 101, which requires disclosure of significant accounting policies comprising the measurement basis (or bases) and the other accounting policies used that are relevant to an understanding of the financial statements.
- As a result, sufficient information to enable users of special purpose financial statements to obtain an understanding of the accounting policies adopted is disclosed. This includes where an entity has selected and applied accounting policies that differ from the recognition and measurement requirements in Australian Accounting Standards that are not mandatory for special purpose financial statements.
- IG3 In that regard, paragraph 9A(b) of AASB 1054 requires an entity whose accounting policies differ from any of the recognition and measurement requirements in Australian Accounting Standards to make an explicit statement to that effect, and support it with an indication of where they differ. The nature of the disclosure providing such an indication would be expected to vary depending on the extent of non-compliance. For example:
- (a) where the differences are not extensive, the following would be appropriate (see Example 6 below):
 - (i) a statement that most of the recognition and measurement requirements have been complied with;
 - (ii) identification of the requirements that have not been complied with and
 - (iii) a cross reference to the significant accounting policy note that describes the policies adopted in relation to those that do not comply; and
 - (b) where the differences are extensive, the following would be appropriate (see Examples 7 and 8 below):
 - (i) a statement that recognition and measurement requirements have not been complied with;
 - (ii) identification of the requirements that have been complied with; and
 - (iii) a cross reference to the significant accounting policy note that describes the policies adopted in relation to those that do not comply.
- IG4 In relation to paragraph 9A(a) of AASB 1054, information about the accounting for investments in subsidiaries, associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements. Exemptions from consolidation of investments in subsidiaries are provided in AASB 10 *Consolidated Financial Statements*, paragraphs 4(a) and Aus4.1 (as modified by paragraph Aus4.2), including when the entity is a wholly-owned subsidiary and its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards. Furthermore, an exception from consolidation under certain circumstances when a parent is an investment entity is provided in paragraph 4B of AASB 10. Directors preparing special purpose financial statements might have other reasons for non-consolidation of some or all of an entity's investments in subsidiaries, and paragraph 9A(a) requires those reasons to be disclosed.

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IG5 The following illustrative examples are provided:

Scenario/Example		1	2	3	4	5	6	7	8
Reporting Framework	Corps Act	x	x	x			x	x	
	ACNC				x	x			x
Subsidiaries	Yes	x	x	x	x	Not assessed			
	No						x	x	x
Consolidated	Yes	x			x				
	No		x			x	n/a	n/a	n/a
	Partially			x					
Associates / Joint Ventures Equity Accounted	Yes	x			x	n/a	n/a	n/a	n/a
	No		x	x			n/a	n/a	n/a
Consolidated financial statements of parent available	Yes	n/a	x		n/a	n/a	n/a	n/a	n/a
	No			x					
Accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards	Yes	x	x	x	x	x			
	No						x	x	x

IG6 The following examples illustrate how an entity might apply the disclosure requirements in paragraphs 8 to 9A of AASB 1054 within the context of the requirements in AASB 101 and AASB 108 referred to in paragraph IG2 above to the special purpose financial statements they prepare, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying AASB 1054.

#	Example	Illustrative disclosure
1	<p>ABC Ltd, a for-profit parent, prepares consolidated special purpose financial statements that:</p> <ul style="list-style-type: none"> consolidate all of its investments in subsidiaries; equity accounted for all its investments in associates and joint ventures in a manner consistent with AASB 128; and apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. 	<p>ABC Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the directors' reporting requirements under the <i>Corporations Act 2001</i>.</p> <p>ABC Ltd has consolidated all its investments in subsidiaries consistent with AASB 10 <i>Consolidated Financial Statements</i> and equity accounted for all its associates and joint ventures, in a manner consistent with AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>In addition to the accounting policies described above, the significant accounting policies adopted in the special purpose financial statements are [set out below/in Note XX]¹.</p>
2	EFG Ltd, a for-profit parent, prepares unconsolidated special purpose financial statements (which is consistent with AASB 10's criteria for exemption/exception from consolidation) and applies accounting policies	<p>EFG Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these</p>

¹ Text in square brackets throughout the illustrative disclosures provide examples of alternative disclosures indicating that preparers should tailor the disclosures to suit the facts and circumstances of the relevant entity preparing the special purpose financial statements.

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#	Example	Illustrative disclosure
	that comply with all the recognition and measurement requirements in Australian Accounting Standards in those unconsolidated statements.	<p>financial statements have been prepared to satisfy the directors' reporting requirements under the <i>Corporations Act 2001</i>.</p> <p>Consistent with the [exemptions/exception] from consolidation in AASB 10 <i>Consolidated Financial Statements</i>, these financial statements do not consolidate EFG Ltd's investments in subsidiaries as [EFG Ltd is a wholly-owned subsidiary and its ultimate parent HIJ Ltd produces consolidated financial statements that are available for public use and comply with Australian Accounting Standards/ EFG Ltd is an investment entity]² and measures its subsidiaries at fair value].</p> <p>HIJ Ltd's consolidated financial statements are available from HIJ Ltd's website [cite website address].</p> <p>EFG Ltd's unconsolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>In addition to the accounting policies described above, the significant accounting policies adopted in the special purpose financial statements are [set out below/in Note XX].</p>
3	<p>MNO Ltd, a parent, prepares partially consolidated special purpose financial statements that:</p> <ul style="list-style-type: none"> consolidate some but not all of its investments in subsidiaries (and are therefore inconsistent with AASB 10); do not equity account all its investments in associates and joint ventures in a manner consistent with AASB 128; and apply accounting policies to those partially consolidated financial statements that comply with all the recognition and measurement requirements in Australian Accounting Standards. 	<p>MNO Ltd, a [for-profit/not-for-profit] entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the directors' reporting requirements under [the <i>Corporations Act 2001/Australian Charities and Not-for-profits Commission Act 2012</i>].</p> <p>These financial statements do not consolidate all MNO Ltd's investments in subsidiaries or equity account for all its investments in associates or joint ventures as the directors have determined that [insert an explanation of why some subsidiaries are not consolidated].</p> <p>Consolidated financial statements of MNO Ltd's parent are not available.</p> <p>MNO Ltd [partially consolidated/unconsolidated] special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>In addition to the accounting policies described above, the significant accounting policies adopted in the special purpose financial statements are [set out below/in Note XX].</p>
4	<p>Charity A Inc, a not-for-profit parent, prepares consolidated special purpose financial statements that:</p> <ul style="list-style-type: none"> consolidate all its investments in subsidiaries; equity accounts for all its investments in associates and joint ventures in a manner consistent with AASB 128; and apply accounting policies that comply with all the recognition and 	<p>Charity A Inc, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the [Management Committee], there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the [Management Committee]'s reporting requirements under [the <i>Australian Charities and Not-for-profits Commission Act 2012</i>/insert details of the not-for-profit reporting framework under which the financial statements are prepared].</p>

Commented [HF8]: Note to the Board 8: Is the Board comfortable with using investment entity as an illustrative example for special purpose financial statements.

In staff view, this is acceptable given this provides an illustration of departure from common consolidation requirements while still in compliance with Australian Accounting Standards. Also, staff had inserted foot note referring to a "rare cases" when investment entity would not be a reporting entity

Commented [HF9]: Note to the Board 9: As indicated in the Note to the Board 6 above re: paragraph 9A(ii) there is no specific requirement to disclose information about investments in associates and joint ventures when entity does not consolidate all of its subsidiaries.

If the Board decides to require disclosure of such information, the wording of the IE could use the example of an investment entity that consolidates only its servicing subsidiary and measures all other subsidiaries and all associates and JVs at fair value.

² Applicable in rare cases when an investment entity is not a reporting entity preparing general purpose financial statements in accordance with AASB 1053 *Application of Tiers of Australian Accounting Standards*.

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#	Example	Illustrative disclosure
	measurement requirements in Australian Accounting Standards.	<p>Charity A Inc has consolidated all its investments in subsidiaries consistent with AASB 10 <i>Consolidated Financial Statements</i> and equity accounted for all its associates and joint ventures in a manner consistent with AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>In addition to the accounting policies described above, the significant accounting policies adopted in the special purpose financial statements are [set out below/in <i>Note XX</i>].</p>
5	<p>Charity B Inc, a not-for-profit entity, prepares special purpose financial statements that:</p> <ul style="list-style-type: none"> do not consolidate any entities as Charity C did not make an assessment of AASB 10 whether it controls any entities; apply accounting policies that comply with all the recognition and measurements requirements in Australian Accounting Standards. 	<p>Charity B Inc, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the [Management Committee], there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the [Management Committee]'s reporting requirements under [the <i>Australian Charities and Not-for-profits Commission Act 2012</i>/insert details of the not-for-profit reporting framework under which the financial statements are prepared].</p> <p>Charity B Inc has not assessed whether there are subsidiaries in accordance with the requirements of AASB 10 <i>Consolidated Financial Statements</i> and these financial statements do not consolidate any entities.</p> <p>These special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>In addition to the accounting policies described above, the significant accounting policies adopted in the special purpose financial statements are [set out below/in <i>Note XX</i>].</p>
6	XYZ Ltd, a for-profit entity, does not hold any investments in subsidiaries and prepares special purpose financial statements that apply accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are not extensive.	<p>XYZ Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the directors' reporting requirements under the <i>Corporations Act 2001</i>.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>Most of the recognition and measurements requirements of Australian Accounting Standards have been complied with. The recognition and measurement requirements that have not been complied with are those specified in [AASB 112 <i>Income Taxes</i>/insert details that indicate which material recognition and measurement requirements in Australian Accounting Standards have not been complied with].</p> <p>The significant accounting policies adopted in the special purpose financial statements are [set out below/in <i>Note XX</i>] and include [the following accounting policies that are not consistent with the recognition and measurement requirements of Australian Accounting Standards:</p> <ul style="list-style-type: none"> in accounting for income taxes, deferred tax has not been recognised;

Commented [HF10]: Note to the Board 10: Does the Board agree with this example illustrating case where those charged with governance have not assessed requirements of AASB 10?

Note that this is one of the illustrative examples suggested by ACNC as the result of outreach discussions reflecting their feedback that charities may have limited capabilities to assess whether they have any subsidiaries (i.e. to apply criteria listed in AASB 10 to assess whether control exist).

Staff has decided not to illustrate ACNC group reporting being particular case of "partial consolidation" for NFPs given its relative limited occurrence in practice (279 group reporters based on FY18 data) and the fact that such example has not been suggested by ACNC during the outreach to have included in the Illustrative Examples. Does the Board agree?

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#	Example	Illustrative disclosure
		<ul style="list-style-type: none"> - insert further details that indicate where material recognition and measurement requirements in Australian Accounting Standards have not been complied with].
7	MLK Ltd, a for-profit entity, does not hold any investments in subsidiaries and prepares special purpose financial statements that apply accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are extensive.	<p>MLK Ltd, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the directors' reporting requirements under the <i>Corporations Act 2001</i>.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>These special purpose financial statements do not comply with the recognition and measurement requirements in Australian Accounting Standards except for those specified in:</p> <ul style="list-style-type: none"> - [AASB 15 <i>Revenue from Contracts with Customers</i>; - AASB 102 <i>Inventories</i>; - AASB 9 <i>Financial Instruments</i>; - AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>; - Interpretation 1031 <i>Accounting for the Goods and Services Tax (GST)</i>; and - insert details that indicate which material recognition and measurement requirements in Australian Accounting Standards have been complied with]. <p>The significant accounting policies adopted in the special purpose financial statements [set out below/in <i>Note X</i>] and include [the following accounting policies that are not consistent with the recognition and measurement requirements of Australian Accounting Standards:</p> <ul style="list-style-type: none"> - in accounting for income taxes, deferred tax has not been recognised, which does not comply with AASB 112 <i>Income Taxes</i>; - in accounting for property, plant and equipment, assets were not depreciated based on their useful lives and instead were [provide details of the accounting policy], which does not comply with AASB 116 <i>Property, Plant and Equipment</i>; - in accounting for impairments, the recoverable amount for impairment testing was calculated on an undiscounted basis, which does not comply with AASB 136 <i>Impairment of Assets</i>; - insert further details that indicate where material recognition and measurement requirements in Australian Accounting Standards have not been complied with].
8	Charity D Inc, a not-for-profit entity, does not hold any investments in subsidiaries and prepares special purpose financial statements that apply accounting policies that do not comply with all the recognition and measurement requirements in Australian	Charity D Inc, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the [Management Committee], there are unlikely to exist users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to

Commented [HF11]: Note to the Board 11: Staff has used data from not yet published research Review of Special Purpose Financial Statements: Large and Medium Charities (page 6, footnote 1) and Financial Reporting Practices of For-Profit Entities Lodging SPFSs (page 27 paragraph 2a) as the basis for the particular illustrative instances of non-compliance in Examples 7 and 8.

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#	Example	Illustrative disclosure
	Accounting Standards. The differences are extensive.	<p>satisfy the [Management Committee]'s reporting requirements under [the <i>Australian Charities and Not-for-profits Commission Act 2012</i>/insert details of the not-for-profit reporting framework under which the financial statements are prepared].</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>These special purpose financial statements do not comply with the recognition and measurement requirements of Australian Accounting Standards except for:</p> <ul style="list-style-type: none"> - [AASB 15 <i>Revenue from Contracts with Customers</i>; - AASB 116 <i>Property, Plant and Equipment</i>; - AASB 138 <i>Intangible Assets</i>; - AASB 110 <i>Events after the Reporting Period</i>; and - Interpretation 1031 <i>Accounting for the Goods and Services Tax (GST)</i>; - insert details that indicate which material recognition and measurement requirements in Australian Accounting Standards have been complied with]. <p>The significant accounting policies adopted in the special purpose financial statements [set out below/in <i>Note X</i>] and [include the following accounting policies that are not consistent with the recognition & measurement requirements of Australian Accounting Standards:</p> <ul style="list-style-type: none"> - in accounting for income, recognition of certain types of grant income has been deferred until the related expenses are incurred, which does not comply with AASB 1058 <i>Income of Not-for-Profit Entities</i> - in accounting for employee benefits, employee benefits were recognised only until the end of the reporting period and no provisions for long service leave was recognised, which does not comply with AASB 119 <i>Employee Benefits</i> - insert further details that indicate where material recognition and measurement requirements of Australian Accounting Standards have not been complied with].

Commented [HF12]: Note to the Board 12: ACNC in their suggested example listed only the standards which NFPs complied with the recognition and measurement requirements in Australian Accounting Standards followed by reference to the accounting policies.

In staff's view while this may require preparers to assess their accounting policies against the recognition and measurement requirements in Australian Accounting Standards, it is a necessary amendment to achieve the Board's overall objective for this project as already highlighted in Note to Board 7 further above. Does the Board agree?

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2019-X Amendments to Australian Accounting Standard 1054 – Australian Additional Disclosures.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for developing the Exposure Draft

- BC2 Australia is the only jurisdiction with a 'reporting entity' concept that effectively permits entities to self-assess what type of financial reporting they do when they are required by legislation or otherwise (such as by a constitutional document) to prepare financial statements in accordance with accounting standards (issued by the Australian Accounting Standards Board). Therefore, unlike other jurisdictions, in Australia two similar entities might prepare very different sets of financial statements, one preparing general purpose financial statements using a robust and consistent framework, and the other preparing special purpose financial statements with self-selected requirements. The Board notes that the self-selection is subject to some constraints, imposed by paragraphs 7 and 10 to 12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- BC3 Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards* defines what a reporting entity is,³ and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also sets out the reporting entity concept. Paragraph 41 of SAC 1 states that "Reporting entities shall prepare general purpose financial reports."⁴ In relation to a group, SAC 1 states in paragraph 17 that "the group, which may be termed an economic entity, will be a reporting entity where there exist users dependent on general purpose financial reports for making and evaluating resource allocation decisions regarding the collective operations of the group of entities".
- BC4 An entity that assesses itself to be a non-reporting entity can therefore prepare special purpose financial statements, which are not necessarily consistent, comparable, transparent or enforceable. In particular, special purpose financial statements do not always comply with the recognition and measurement requirements⁵ in Australian Accounting Standards and nor do they always disclose that fact. The Board is aware of the view of some, that this situation is acceptable because, by definition, users of special purpose financial statements can demand any information they need. However, the Board has received feedback that in practice that is often not the case and that users do require additional information so they can confidently assess an entity's level of compliance with the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements.
- BC5 In developing this Exposure Draft, the Board considered the research projects it initiated, the findings of which are contained in AASB Research Report XX *Financial Reporting Practices of For-Profit Entities Lodging SPFSs* (xxxx 2019) and AASB Research Report YY *Review of Special Purpose Financial Statements: Large and Medium Sized Australian Charities* (xxxx 2019).
- BC6 An analysis of the reporting practices of for-profit non-disclosing entities lodging financial statements with the ASIC undertaken as part of Research Report XX estimated that 55% of those entities prepared and lodged

³ "Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries." AASB 1053, Appendix A.

⁴ "general purpose financial report" intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs". SAC 1, paragraph 6

⁵ For those entities that are required to prepare and lodge financial statements with ASIC by Part 2M.3 of the Corporations Act 2001, and are preparing special purpose financial statements, paragraph 2 of Australian Securities and Investments Commission (ASIC) Regulatory Guide 85 Reporting requirements for non-reporting entities states "... ASIC believes that non-reporting entities, which are required to prepare financial reports in accordance with Chapter 2M of the Corporations Act 2001 (Act), should comply with the recognition and measurement requirements of accounting standards". For those entities that are required to prepare and lodge financial statements with the Australian Charities and Not-for-profits Commission (ACNC), "section 60.10(3) of ACNC Regulations requires financial statements and notes give a 'true and fair view', and the determination is required by the charity as well as the auditors in their audit report.

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special purpose financial statements in 2018. Research Report XX further estimated that of those for-profit non-disclosing entities preparing and lodging special purpose financial statements:

- (a) 66% have explicitly stated that they followed the recognition and measurement requirements in Australian Accounting Standards;⁶
- (b) 10% were assessed to have complied with the recognition and measurement requirements in Australian Accounting Standards based on a qualitative review of the accounting policies, despite the absence of an explicit statement to that effect;
- (c) 10% did not comply with the recognition and measurement requirements in Australian Accounting Standards (of which only 0.5% clearly stated so); and
- (d) the extent of compliance (or otherwise) with the recognition and measurement requirements in Australian Accounting Standards of the remaining 14% was unclear.

BC7 Research Report YY examined the reporting practices of large and medium charities lodging financial statements with the ACNC in 2016 and estimated that approximately 36% of those charities declared that they were preparing special purpose financial statements based on data obtained from the 2016 Annual Information Statements lodged with the ACNC. It estimated that, of those charities preparing and lodging special purpose financial statements, approximately 67% either did not comply with the recognition and measurement requirements in Australian Accounting Standards, or it was unclear whether or not they complied.

BC8 The Board discussed the results of the research outlined above, along with evidence supporting the existence of users of financial statements, including special purpose financial statements.⁷ The Board also discussed the feedback obtained from users in response to its Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (May 2018), and concluded that the inability of users of special purpose financial statements to determine the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards is problematic. The Board also noted the importance of consistency, comparability and transparency in financial reporting to special purpose financial statement users, and that at times users and stakeholders alike were unaware that some special purpose financial statements (where the preparation of financial statements in compliance with Australian Accounting Standards is required by legislation or otherwise) did not comply with the recognition and measurement requirements in Australian Accounting Standards and consolidation. Adoption of the proposals in this Exposure Draft would help address these issues.

BC9 In light of the Board's current broader project on removing the ability to prepare special purpose financial statements when required to comply with Australian Accounting Standards,⁸ the Board considered whether it was necessary and timely to require an entity preparing special purpose financial statements to make a statement of compliance with the recognition and measurement requirements in Australian Accounting Standards as an interim measure to address these concerns. In doing so, the Board also considered whether any existing disclosure requirements in Australian Accounting Standards or other pronouncements required the disclosure of similar information.

BC10 The Board noted that paragraph 117 of AASB 101 *Presentation of Financial Statements*, which applies not only to general purpose financial statements but also directly to the special purpose financial statements of entities required to prepare financial reports in accordance with the *Corporations Act 2001*⁹, requires an entity to disclose its significant accounting policies. The Board also noted that, where it applies, paragraph 6.1 of Accounting Professional and Ethical Standard APES 205 *Conformity with Accounting Standards* (October 2015) issued by the Accounting Professional and Ethical Standards Board (APESB) also requires the disclosure of similar information about an entity's accounting policies. The Board however noted that while these disclosures provide information about an entity's accounting policies, they would not necessarily provide users with sufficient information about an entity's compliance with the recognition and measurement requirements in Australian Accounting Standards.

⁶ To determine whether or not an entity's accounting policies complied with the recognition and measurement requirements in Australian Accounting Standards, Research Report XX outlines a number of phrases which could be used by an entity, and which if included in an entity's financial statements resulted in the entity being deemed to have stated compliance with the recognition and measurement requirements in Australian Accounting Standards. When determining whether or not an entity complied with the recognition and measurement requirements in Australian Accounting Standards, the results of Research Report XX focused only on compliance with recognition and measurement requirements and did not identify whether or not entities prepared consolidated financial statements.

⁷ It is understood, for example, that approximately 98,000 sets of financial statements are purchased from ASIC each year, at least some of which are special purpose financial statements.

⁸ This project will remove ability to prepare special purpose financial statements when an entity is required to comply with Australian Accounting Standards via a phased approach, firstly in relation to for-profit entities and, in due course, in relation to not-for-profit entities.

⁹ And indirectly through other legislation that imposes the application of AASB 101 in the preparation of special purpose financial statements. For example, the *Australian Charities and Not-for-profits Commission Act 2012*, through section 60.30 of the *Australian Charities and Not-for-profits Commission Regulation 2013*, requires charities lodging special purpose financial statements with the ACNC to comply with AASB 101, despite the fact that the application paragraph of that Standard does not directly encompass them.

Commented [KK14]: Note to the Board 14: This percentage may change pending the outcome of additional work currently being undertaken by the researcher.

Commented [KK15]: Note to the Board 15: This percentage may change pending the outcome of additional work currently being undertaken by the researcher.

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- BC11 On the basis of the considerations outlined in paragraphs BC2 to BC10 above, the Board decided that an amendment to Australian Accounting Standards to require entities to disclose information about compliance with the recognition and measurement requirements in Australian Accounting Standards was urgently needed to provide greater transparency to users of publicly lodged special purpose financial statements.
- BC12 The Board noted that, when preparing the required disclosure, entities would need to consider how their existing accounting policies compare with the recognition and measurement requirements in Australian Accounting Standards. While the Board confirmed that the amendment would not require an entity to change its existing accounting policies, understanding the extent of alignment between the entity's existing accounting policies and the recognition and measurement requirements in Australian Accounting Standards is expected to assist the entity if or when it needs to prepare for the forthcoming transition from special purpose financial statements to general purpose financial statements that is currently being proposed by the Board for for-profit entities through a separate project (as referred to in footnote 8 to paragraph BC9 above). It is also expected to help not-for-profit entities better understand the impact of the Board's related project to revise the not-for-profit financial reporting framework and might also enable these entities to provide more detailed feedback to the Board when it consults on this matter in the future.
- BC13 The significant issues considered by the Board are addressed in the following section.

Significant issues

Scope

- BC14 In deciding who should be required to make the disclosures proposed in this Exposure Draft, the Board considered *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework*, and decided the proposals would be consistent with both frameworks and therefore should apply to for-profit and not-for-profit entities.
- BC15 In making this decision, the Board had particular regard to the following factors:
- (a) the uncertainty about an entity's compliance (or otherwise) with the recognition and measurement requirements in Australian Accounting Standards described in paragraphs BC6 and BC7 above significantly adversely impacts financial statement users in both the for-profit and not-for-profit sectors;
 - (b) financial statement users have noted during AASB outreach to date¹⁰ the lack of, and need to improve, comparability, consistency and transparency in special purpose financial statements;
 - (c) the evidence of diversity in the application of, and compliance with, the recognition and measurement requirements in special purpose financial statements noted in Research Report XX and Research Report YY (and referred to in paragraphs BC6 and BC7 above); and
 - (d) the significant number of charities preparing special purpose financial statements and the low levels of explicit statements of compliance with recognition and measurement requirements in Australian Accounting Standards therein.
- BC16 When deciding which for-profit and not-for-profit entities should be required to make the disclosures, the Board considered whether the disclosures should be required of:
- (a) all entities preparing special purpose financial statements (including those preparing financial statements voluntarily); or
 - (b) all entities preparing special purpose financial statements that are required by legislation or otherwise to comply with Australian Accounting Standards; or
 - (c) only those entities preparing special purpose financial statements that are directly subject to AASB 101 and AASB 1054 *Australian Additional Disclosures*¹¹, as set out in paragraph 2 of AASB 1054 and paragraph 7 of AASB 1057 *Application of Australian Accounting Standards*, (and, indirectly, any entities required through legislation to comply with AASB 101 and AASB 1054, such as entities lodging special purpose financial statements with the ACNC as they are required by legislation to comply with AASB 101 and AASB 1054 (as noted in the footnote to paragraph BC10 above)).
- BC17 As one objective of the disclosures proposed in this Exposure Draft is to provide information to users of special purpose financial statements about compliance with the recognition and measurement requirements in Australian Accounting Standards, the Board considered that while there was merit in requiring all entities required by legislation or otherwise to comply with Australian Accounting Standards preparing special purpose financial statements to make the disclosure, to do so was not warranted. This is consistent with the current scope of Australian Accounting Standards and the Board's role and expertise, which is to determine

¹⁰ Such outreach included responses received on ITC 39, user surveys and participation of stakeholders at ITC 39 roundtable events.

¹¹ And AASB 107 *Cash Flow Statements*, AASB 108 and AASB 1048 *Interpretation of Standards*, although they were not considered appropriate candidates to give effect to the proposed amendments, as noted in paragraph BC20 below.

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the appropriate accounting framework and accounting standards that should apply where legislation, regulation or other authority requires the preparation of financial statements that comply with Australian Accounting Standards.

- BC18 The Board did acknowledge that if the disclosures were required only by entities subject to AASB 101 and AASB 1054, there may be a large number of entities preparing special purpose financial statements when required to comply with Australian Accounting Standards that would not be required to make the disclosures (e.g. entities outside the scope of the *Corporations Act 2001* and entities not regulated by the ACNC). The Board however made the observation that many of these entities are expected to fall within the scope of APES 205, as the intention of APES 205 is to set requirements for members¹² who are involved in the preparation, presentation, audit, review or compilation of financial statements for entities that are outside the scope of the *Corporations Act 2001*. Therefore, to possibly mitigate (albeit not eliminate) concerns about entities outside the scope of AASB 101 and AASB 1054 not being required to make the disclosures, the matter was raised with staff of the APESB as to whether the APESB might consider following its own due process making any consequential amendments to APES 205 consistent with the amendments to the affected Australian Accounting Standard proposed in this Exposure Draft. The Board will monitor any work the APESB might undertake and continue to liaise with staff of the APESB on this matter, keeping them informed of the outcome of this Exposure Draft. The Board will also inform other regulators of the outcome of this Exposure Draft, which will help them consider whether there are any consequences for their regulations of the new disclosure requirements.
- BC19 For the reasons outlined in paragraph BC17 and BC18 above, the Board decided it was not necessary to broaden the application paragraphs of AASB 101 or AASB 1054, and therefore the amendment should apply in the manner described in paragraph BC16(c) above.
- BC20 The Board then considered whether the disclosure requirement should be effected through AASB 101 or AASB 1054. They were identified as the only two reasonable candidates as vehicles for housing the requirements because they already have related requirements: AASB 101 includes requirements relating to the disclosure of accounting policies and compliance with Standards, and AASB 1054 includes requirements relating to compliance with Australian Accounting Standards and explicitly refers to special purpose financial reports. The Board's preferred approach was to amend AASB 1054 because the amendment is Australian-specific, specifically relates to special purpose financial statements, and is consistent with the objective of AASB 1054 "... to set out Australian-specific disclosure requirements that are in addition to the disclosure requirements of International Financial Reporting Standards".

Disclosures regarding the basis for the decision to prepare special purpose financial statements

- BC21 Paragraph 9 of AASB 1054 requires an entity to disclose whether the financial statements are general purpose or special purpose. The Board decided that entities should also be required to disclose the reasons why the preparation of special purpose financial statements was considered appropriate. In making this decision, the Board noted that entities often disclose this information voluntarily and that mandating it in an Australian Accounting Standard would help ensure users are provided with useful information.

Disclosures regarding compliance with the recognition and measurement requirements in Australian Accounting Standards

- BC22 When deciding what information about compliance with the recognition and measurement requirements in Australian Accounting Standards should be disclosed, the Board considered the following alternatives:

Option	Information to be disclosed
Option 1	<ul style="list-style-type: none"> - Contextual information about the entity, being if the entity has investments in a subsidiary. - Contextual information about the consolidated or unconsolidated financial statements. In particular if the entity has investments in a subsidiary: <ul style="list-style-type: none"> o whether all subsidiaries have been consolidated in the financial statements, and if some or all subsidiaries have not been consolidated, why; o where the financial statements consolidate subsidiaries, whether there are any investments in associates or joint ventures and whether they have been accounted for in a manner consistent with AASB 128 <i>Investments in Associates and Joint Ventures</i>; and

Commented [CK16]: Note to the Board 16: This paragraph has been drafted on the assumption the Board agrees with the staff recommendation and related question to the Board in Note to the Board 3.

¹² APES 205 defines a member as "a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body". APES 205 is therefore applicable, to and mandatory for, accounting professionals who are members of CPA Australia, Chartered Accountants Australia and New Zealand or the Institute of Public Accountants. This includes accountants working in accounting firms (of all sizes), the corporate sector and in government. Therefore, although its reach is limited, it is broader than that of AASB 1054.

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Option	Information to be disclosed
	<ul style="list-style-type: none"> where the financial statements do not consolidate some or all subsidiaries, if consolidated financial statements of the entity's parent are available and if so where they can be accessed.
Option 2	An explicit statement of whether the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards, and if not, an indication of where they do not comply.
Option 3	Merely a binary statement regarding compliance or non-compliance with all recognition and measurement requirements in Australian Accounting Standards, for example either that "the entity has complied with all recognition and measurement requirements in Australian Accounting Standards" or "the entity has not complied with all recognition and measurement requirements in Australian Accounting Standards".
Option 4	Merely a statement of compliance with all recognition and measurement requirements in Australian Accounting Standards that is, no statement would be required if an entity did not comply with all recognition and measurement requirements in Australian Accounting Standards.

BC23 The Board decided that Options 1 and 2 together were most appropriate, as they best inform financial statement users about the special purpose financial statements and best address the issues identified in paragraph BC2 to BC10 above.

BC24 When considering the appropriateness of Option 1, the Board considered whether it was necessary to require an entity that does not have subsidiaries to explicitly disclose this fact. The Board decided this was not necessary as such information can be readily deduced from the financial statements, including from the disclosure required by paragraph 51(b) of AASB 101.¹³

BC25 The Board also considered whether it was necessary to require an entity to disclose information about investments in associates and joint ventures in circumstances where the entity has subsidiaries but does not prepare consolidated financial statements. The Board decided the disclosure of this information was not necessary as an entity that has subsidiaries but does not prepare consolidated financial statements, implies, by extension, the entity has not accounted for its investments in associates and joint ventures using the equity method of accounting in a manner consistent with AASB 128.

BC26 The Board decided that in situations where an entity's financial statements do not consolidate some or all of its subsidiaries, information about consolidated financial statements of the entity's parent was necessary to enable financial statement users to at least be able to know if and where they can access some consolidated information, even if it is incorporated into a wider group. This requirement improves transparency in financial reporting. The Board also considered whether to require these entities to identify those subsidiaries that have not been consolidated. Whilst the Board acknowledged that this information might be useful to users of financial statement, the Board noted that for some entities, particularly those in the not-for-profit sector, this disclosure might be unduly burdensome, such as where entities are not required to determine whether they have controlled entities in accordance with AASB 10 *Consolidated Financial Statements*. Thus, on balance, the Board decided not to require entities to identify subsidiaries that have not been consolidated.

BC27 The Board noted the general requirement in paragraph 117 of AASB 101 to disclose accounting policies provides financial statement users with an explanation of the basis upon which the financial statements have been prepared, but does not provide information regarding how those accounting policies compare with the recognition and measurement requirements in Australian Accounting Standards. Accordingly, the transparency of special purpose financial reporting is compromised. The Board therefore decided that it was necessary for an entity to disclose whether it complied with the recognition and measurement requirements in Australian Accounting Standards and to supplement that disclosure with an indication of where they do not comply.

BC28 In relation to the requirement to provide an indication of where non-compliance exists (for example, where the entity has not provided for employee entitlements in a manner consistent with AASB 119 *Employee Benefits*), the Board decided to express a broad principle (i.e. an indication of where the non-compliance exists) rather than take a more prescriptive approach (e.g. a description of the extent of non-compliance). This was because, in the Board's view, the explanation of that disclosure requirement in paragraph IG2 of the *Implementation guidance and illustrative examples* and the *Implementation guidance and illustrative examples* themselves attached to AASB 1054 as non-mandatory material (see paragraph BC29 immediately below) provide sufficient guidance for preparers to understand the nature of the information that is to be disclosed. As illustrated in the *Implementation guidance and illustrative examples*, the approach taken by the

¹³ Paragraph 51(b) of AASB 101 requires that an entity shall disclose "whether the financial statements are of an individual entity or a group of entities".

Commented [CK17]: Note to the Board 17: This paragraph has been drafted on the assumption the Board agrees with the staff recommendation and related question to the Board in Note to the Board 4.

Commented [CK18]: Note to the Board 18: This paragraph has been drafted on the assumption the Board agrees with the staff recommendation and related question to the Board in Note to the Board 6.

Commented [CK19]: Note to the Board 19: This paragraph has been drafted on the assumption the Board agrees with the staff recommendation and related question to the Board in Note to the Board 5.

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Board also leaves discretion for entities to determine how best to make the disclosure having regard to their particular circumstances and the needs of their users.

- BC29 The Board noted the view of some that, depending upon the extent of an entity's non-compliance with the recognition and measurement requirements in Australian Accounting Standards, the preparation of the required disclosure could be onerous. To help address this concern, as referred to in paragraph BC28 immediately above, the Board prepared a number of Illustrative Examples and a flowchart. The *Implementation guidance and illustrative examples* are designed to provide examples of how the required information might be disclosed having regard to the existing variation and diversity with regards to compliance with the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements currently seen in practice.
- BC30 The Board further noted the view that, depending on the current level of expertise, some entities might find it burdensome to determine whether their accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards. The Board also made the observation that understanding the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards is a part of good governance and therefore it is reasonable to expect the necessary level of expertise is available, and any costs of acquiring that expertise would be reasonably expected to be outweighed by the benefits. Furthermore, the Board confirmed that the amendment would not require an entity to change its existing accounting policies and therefore is not onerous.
- BC31 While Options 3 and 4 in the table in paragraph BC22 above were not without their advantages, the Board decided they were not the most appropriate alternatives for a number of reasons including:
- (a) A binary disclosure stating only 'non-compliance' as suggested in Option 3 would not be useful as users would not be able to discern the extent of recognition and measurement compliance or non-compliance; and
 - (b) Option 4 was not appropriate as if an entity did not make the disclosure, users would also not be able to discern the reason for non-compliance, that is, whether it was a recognition and measurement non-compliance or the omission of a disclosure requirement for example.

Accordingly, any costs that would be saved by adopting Options 3 or 4 relative to Option 2, including that they would result in less voluminous disclosure, would be clearly outweighed by the benefits to users of Option 2.

Other issues

- BC32 Both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework* state that the Board does not currently set standards for special purpose financial statements, as such financial statements should only be prepared where users can tailor them to their own information needs, and therefore do not need a standard-setter or regulator to require the information on their behalf. Accordingly, the Board noted the view that those responsible for the preparation of special purpose financial statements should determine the extent to which they conform with Australian Accounting Standards and therefore it is not necessary for the Board to specify the disclosures proposed in this Exposure Draft.
- BC33 Notwithstanding this, "as part of moving legacy regulations out of legislation and into Australian Accounting Standards ...",¹⁴ and as noted in paragraph BC16(c) above, Australian Accounting Standards AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054 apply to special purpose financial statements. The Board considered that this, especially the requirement in paragraph 9 of AASB 1054¹⁵, together with the needs of users noted in paragraph BC15 above, provided a sufficient basis for requiring the disclosures in special purpose financial statements proposed in this Exposure Draft.

Trans-Tasman convergence

- BC34 *The AASB's For-Profit Entity Standard-Setting Framework* requires that, wherever possible, differences between accounting standards issued in Australia and New Zealand should be minimised to reduce costs for entities operating trans-Tasman.
- BC35 The Board noted that the New Zealand equivalent of AASB 1054, Financial Reporting Standard No. 44 *New Zealand Additional Disclosures* would not be amended to require the disclosure in this Exposure Draft. This is because in New Zealand, entities that apply accounting standards issued by the External Reporting Board have a statutory obligation (or alternatively choose) to prepare general purpose financial statements. In New

Commented [CK20]: Note to the Board 20: This paragraph has been drafted on the assumption the Board agrees with the staff recommendation and related question to the Board in Note to the Board 7.

¹⁴ Paragraph 14 of both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework*.
¹⁵ Paragraph 9 of AASB 1054 requires an entity to disclose whether the financial statements are general purpose financial statements or special purpose financial statements.

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Zealand, entities that have a statutory obligation to prepare financial statements cannot prepare special purpose financial statements.

Effective date

- BC36 The Board confirmed that the narrow scope amendment proposed in this Exposure Draft is an interim measure, until the broader project on removing special purpose financial statements is completed (an Exposure Draft relating to which is planned for Quarter 4 of 2019 and expected to be mandatory for annual periods beginning on or after 1 July 2020 for for-profit entities and a later, yet to be determined date, for not-for-profit entities), and confirmed, on the basis outlined in this Basis for Conclusions, that the amendment is urgently needed to provide more transparency to the users of publicly lodged special purpose financial statements.
- BC37 As noted in paragraph BC30 above, the amendments do not require entities to change their existing accounting policies, and therefore the information required to be disclosed is based on an entity's existing financial reporting policies and practices. Accordingly, it is not necessary to provide an extended operative date.
- BC38 As such, in the expectation the Amending Standard proposed in this Exposure Draft is issued prior to 31 December 2019, the Board decided the amendment should be effective for annual periods ending on or after 30 June 2020. However, early voluntary disclosure is allowed, and indeed encouraged.