



Project:	Australian Financial Reporting Framework	Meeting:	AASB September 2019 (M172)
Topic:	AASB 1054 – Disclosure of Compliance with R&M in SPFS	Agenda Item:	18.1
		Date:	10 September 2019
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		Decision-Making:	High
		Project Status:	Consider comments on ED and determine next steps

OBJECTIVE OF THIS PAPER

- 1 The objective of this paper is for the Board to review comments and feedback received on [AASB Exposure Draft ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements](#)¹ (the comment period closed 19 August 2019) and determine next steps on how to progress with the proposals.

REASONS FOR THE BOARD TO CONSIDER THIS PAPER AT THIS MEETING

- 2 While the Board is currently undertaking a broader project that proposes to address the problems associated with special purpose financial statements (SPFS), the Board decided to propose an urgent and interim amendment to Australian Accounting Standards (AAS) to provide greater transparency to users of publicly lodged SPFS. The proposals in ED 293 was based on feedback received from users and the findings of academic research.
- 3 The Board proposed an effective date for the proposals in ED 293 of annual periods ending on or after 30 June 2020. Therefore, the Board needs to consider the feedback obtained from the consultation process (comment period closed on 19th August 2019) and decide how it wishes to proceed with the proposed amendments.

¹ A copy of the ED 293 has been included in the supplementary folder for ease of reference for the Board.

ATTACHMENTS

- 18.2 Full written submissions received on ED 293 (comprises of twelve documents) [included in the supplementary folder]
- 18.3 *ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* [included in the supplementary folder]

STRUCTURE

- 4 This paper is set out as follows:
- (a) Summary of staff analysis and recommendation (paragraphs 5 to 7);
 - (b) Next steps (paragraph 8);
 - (c) Appendix A: Summary of written responses to each question;
 - (d) Appendix B: List of respondents;
 - (e) Appendix C: Detailed analysis of key matters identified by staff:
 - (i) Key matter 1 - Do the proposed disclosures improve transparency and comparability? (paragraphs 10 to 24);
 - (ii) Key matter 2 - Is the scope of the proposals appropriate? (paragraphs 25 to 50);
 - (iii) Key matter 3 – The proposed disclosures (paragraphs 51 to 100);
 - (iv) Key matter 4 – Cost versus benefit including the short-term nature of the proposals and proposed effective date (paragraphs 101 to 124);
 - (v) Other matters identified by staff (paragraphs 125 to 138); and
 - (f) Appendix D: Summary of webinar (paragraphs 139 to 143).

Summary of staff analysis and recommendations

- 5 Twelve written submissions were received on ED 293 and a webinar on ED 293 was also conducted in July 2019 as part of the education and outreach in relation to this ED. Appendix A provides a summary table of the submissions received, Appendix B provides list of the respondents, Appendix C provides detailed analysis of the feedback from respondents and Appendix D provides a summary of the feedback obtained from the webinar.

6 Based on responses received, Staff consider the following items to be the key matters to be considered by the Board:

- **Key matter 1: Do the proposed disclosures improve transparency and comparability?**
 - Q1 – whether the Board should broadly proceed with the proposals in the ED 293
- **Key matter 2: Is the scope of the proposals appropriate?**
 - Q2 – whether not-for-profit (NFP) entities are in scope of the proposals
 - Q3 – whether the proposals are applicable to entities subject to AASB 1054
- **Key matter 3: The proposed disclosures**
 - Q4 – whether requirements should refer to material accounting policies
 - Q5 – whether examples include only list of accounting policies not complying with recognition and measurement (R&M) requirements with indication of common instances of non-compliance in separate implementation guidance paragraph
 - Q6 – whether further clarification of disclosure requirements in respect of investment entity scenario is required
 - Q7 – whether amendments are required to the examples, particularly to address concerns that examples condone non-compliance with R&M requirements
 - Q8 – whether the disclosure of information which identifies subsidiaries which have not been consolidated is required
 - Q9 – whether to maintain differential treatment of NFP entities in respect of determination of subsidiaries, associates and JVs unless there is a legislative requirement to do so
 - Q10 – whether clarification of what constitutes R&M is required
 - Q11 – whether disclosure requirement on compliance with consolidation and equity accounting remains separate to R&M compliance statement
- **Key matter 4: Cost versus benefit including the short-term nature of the proposals and proposed effective date**
 - Q12 – whether the application of the proposals should be deferred for the entities in scope of ED 297² subject to the outcome of proposals in ED 297
 - Q13 – whether to maintain the proposed effective date for NFP entities or to defer for 12 months
- **Other matters:**
 - Q14 – whether the requirements of the standard-setting frameworks have been met
 - Q15 – whether matters relating to disclosure deficiencies in SPFS are beyond the scope of this project

² ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (August 2019)

- 7 Staff have analysed the feedback and summarised in the table below and provided recommendations to the Board to address these matters at the September 2019 meeting.

Key matter 1: Do the proposed disclosures improve transparency and comparability?	<p>Summary of respondent feedback</p> <p>Eight out of 12 respondents agreed that the proposals will improve the transparency of publicly lodged SPFS and will also improve the comparability of SPFS. However, three of them made further observations on the possibility of the disclosures becoming not relevant with the progress of the financial reporting framework projects and were concerned that costs of the proposals will exceed the benefits. Similar concerns were made by those that did not express a clear view (three out of 12) while one respondent disagreed with the proposals and stated that the Board should raise the matter with the respective regulator if preparers of SPFS did not appropriately disclose their accounting policies in accordance with AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. This respondent also recommended to clarify whether requirements in AASB 10, AASB 127 <i>Separate Financial Statements</i> and AASB 11 <i>Joint Arrangements</i> are R&M requirements or disclosure requirements.</p> <p>For further details, refer to Appendix C, paragraphs 10 to 24.</p>
	<p>Summary of Staff recommendations and Questions to the Board</p> <p>Staff has considered feedback from the respondents to ED 293, webinar participants, the feedback obtained from users and findings of the research reports. On balance, staff consider that the disclosures proposed in ED 293 will provide more transparency to users of publicly lodged SPFS and will also improve the comparability of SPFS. The matter of costs and benefits of the proposals and the concerns of their potentially short-term nature due to the broader financial reporting framework projects are assessed in Key matter 4. The matter of the clarification of scope of R&M requirements is assessed in Key matter 3.</p> <p>Q1 to the Board: <i>Does the Board agree with staff recommendation, that after considering the feedback obtained from respondents to ED 293, webinar participants, feedback obtained from users and the findings of AASB Research Report 11 and AASB Research Report 12, that the disclosures proposed in ED 293 will provide more transparency to users of publicly lodged SPFS and will also improve the comparability of SPFS, and therefore the Board should in principle proceed with the proposals in ED 293, subject to any decisions that the Board makes in relation to the other key matters discussed at this meeting?</i></p> <p>For further details, refer to Key matter 1 in Appendix C.</p>

Summary of respondent feedback

Eight out of 12 respondents agreed with the scope of ED 293, however, three suggested extending the scope of the proposals to include other NFP entities publicly lodging SPFS (in addition to those lodging with the Australian Charities and Not-for-profits Commission (ACNC)) or even all entities preparing SPFS including those doing so voluntarily. In contrast, one respondent suggested to include only NFP entities required to lodge directly with ACNC. Another respondent suggested that all NFP entities should be excluded from the scope and the proposals should only apply to those entities required to lodge financial reports under Part 2M.3 of the *Corporations Act 2001*.

For further details refer to Appendix C, paragraphs [25](#) to [50](#).

Summary of Staff recommendations and Questions to the Board

When considering whether the proposals should apply to NFP entities, staff considered the findings of Research Report No 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* that indicated a significant number of large and medium charities are preparing SPFS and for many of these entities (44%), it is unclear whether or not they are complying with the R&M requirements in AAS. In addition, the regulator of charities, the ACNC, is generally supportive of the proposals in ED 293 as they will increase the transparency and comparability of SPFS for charities. Based on this, staff recommend that the proposed amendments should apply to NFP entities that are required by legislation or otherwise to comply with AASB 1054 *Australian Additional Disclosures*. Staff has considered further options in respect of proposed disclosure requirements or effective date in **Key matter 3** and **Key matter 4**.

Q2 to the Board: *Subject to any decisions of the Board in respect of Q13, does the Board agree with the staff recommendation in paragraph 35 of Appendix C that the proposed amendments should apply to NFP entities that are required by legislation or otherwise to comply with AASB 1054? That is, NFP entities should not be excluded from the scope of these proposals?*

Staff considered the feedback that the proposed amendments should apply to all entities preparing SPFS, including those lodging on public registers (other than the Australian Securities and Investments Commission (ASIC) and ACNC) and those entities preparing SPFS voluntarily and on balance, recommend maintaining the proposed scope of application to entities subject to AASB 1054. For those entities currently not required to comply with AASB 1054, staff consider that other relevant legislators or authority (or a constitutional document) should determine whether those entities also comply with the requirements in AASB 1054.

Q3 to the Board: *Subject to decisions made by the Board in respect of Q2, Q12 and Q13, in the absence of a similar requirement to that proposed in ED 293 being included in APES 205, does the Board agree with staff recommendation in paragraph 49 of Appendix C, that the scope of the proposals should be limited to those entities requirement to comply with AASB 1054 (i.e. it should remain consistent with what is currently proposed in ED 293)?*

For further details, refer to **Key matter 2** in Appendix C.

Summary of respondent feedback

Overall disclosures and the implementation guidance (IG) and illustrative examples (IE)

Seven out of 12 respondents broadly agreed with overall disclosure requirements, however five respondents suggested certain aspects of the proposed disclosures, IG and IE require changes. Five out of 12 respondents disagreed with the disclosure requirements overall and raised concerns about the associated costs, especially on NFP entities. Two respondents also wanted clarification in respect of consolidation and the equity method accounting and whether they are R&M requirements.

Views regarding the usefulness of the IG and IE were mixed with half of the respondents not expressing a clear view.

No explicit statement if entity has no subsidiaries, associates or joint ventures (JVs)

Seven out of 12 respondents agreed, one disagreed and four out of 12 did not express clear view.

An NFP entity has not determined whether it has subsidiaries, associates or JVs

Five out of 12 respondents broadly agreed with some suggested amendments, four disagreed and three did not express clear view. Those that disagreed have concerns about encouraging inconsistent application of accounting policies and impact on the reporting entity assessment.

For further details refer to paragraphs [51](#) to [100](#) in Appendix C.

Summary of Staff recommendations and Questions to the Board

The matter of costs and benefits of the proposals and the concerns of their potentially short-term nature are assessed in **Key matter 4**. Staff considered feedback to include reference to materiality of the R&M requirements and given the application of Practice Statement 2 is limited to the reporting entities, staff suggest amending the requirements to require disclosure of compliance with material R&M requirements, noting similar reference in AASB 108.

Q4 to the Board: *In respect of the staff recommendation in paragraph 69 does the Board agree with staff recommendation to amend the drafting in paragraph 9A(c) to avoid any doubt as to the intended outcome of the proposed disclosure?*

- (a) *if the Board agrees, does the Board agree with the suggested drafting? If not, what drafting does the Board suggest?*
- (b) *if the Board does not agree, does the Board prefer the alternative option in paragraph 70 to retain the current drafting of paragraph 9A(c) and place emphasis on the materiality aspect of disclosing the effects of non-compliance with the R&M requirements in AAS in the non-mandatory material?*

Summary of Staff recommendations and Questions to the Board (continued)

Staff will also consider suggested changes to certain aspects of the IG and IE to make them more straightforward and/or less repetitive when preparing proposed amending standard if the Board will decide to proceed. In particular, staff has considered simplifying IE 7 and 8 in light of the feedback that the illustrative examples are too detailed and prescriptive. Staff recommend moving examples of illustration of indication of non-compliance with the R&M requirements in AAS outside IE 7 and IE 8 into a separate paragraph within IG section. IE will then include simple statement of non-compliance (e.g. "... grant income recognition policy does not comply with AASB 1058 *Income of Not-for-Profit Entities ...*").

Q5 to the Board: *Does the Board wish to amend the illustrative examples as suggested in paragraph 71 to list only the accounting policies that do not comply with the R&M requirements in AAS and include separate narrative in the non-mandatory material accompany AASB 1054? If not, what does the Board suggest?*

Staff also considered suggestions to clarify the disclosure requirements when an entity is exempt from applying the AASB 10 *Consolidated Financial Statements* requirements and noted that this scenario is sufficiently illustrated in IE 2 in ED 293.

Q6 to the Board: *Does the Board agree with staff view in paragraph 72, that further clarification regarding the application of the proposed disclosure requirements to a scenario in which an entity takes advantage of the exemption from the requirement to prepare consolidated financial statement consistent with AASB 10 is not required?*

Staff have considered concerns that IE condone non-compliance with AAS and noted that given ASIC Regulatory Guide 85 is guidance only, the absence of similar requirements for NFP entities and the resulting low levels of clarity regarding whether or not an entity has complied with the R&M requirements in AAS as evidenced by the findings in AASB Research Report 11 and AASB Research Report 12, staff do not suggest changes in IG and IE in this respect.

Q7 to the Board: *Does the Board agree with staff recommendation that no changes are required to the illustrative examples as presented in ED 293 (subject to any amendments necessary as a result of feedback considered in paragraph 65)?*

Staff also considered feedback suggesting requiring identification of subsidiaries that have not been consolidated. Staff acknowledge that the current Tier 2³ disclosure framework does not require such a disclosure, however, this is because consolidation is mandatory requirement for general purpose financial statements (GPFS). Nevertheless, staff maintain the view that the potential benefits of this disclosure would not outweigh the relative burden requiring such a disclosure especially for NFP entities.

Q8 to the Board: *Does the Board agree with staff view in paragraph 81 that requiring disclosure of information which identifies subsidiaries which have not been consolidated, while useful, may be too burdensome and should therefore not be required?*

³ Currently, Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

(See paragraph 7 of AASB 1053 *Application of Tiers of Australian Accounting Standards*). However, the AASB is considering what the most appropriate Tier 2 GPFS disclosure framework may be via ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (August 2019).

Staff have considered the feedback that the proposals would be introducing inconsistent treatment for NFP entities. Staff have considered requirements of *The AASB's Not-for-Profit Entity Standard Setting Framework* (such as the transaction neutrality concept as well as justification of NFP modifications due to undue cost and effort). Staff also noted that charities reporting to ACNC are not required to determine their thresholds for the purposes of lodging annual financial reports with ACNC, at a consolidated level. Thus, on balance, staff suggest keeping the proposed differential treatment for NFP entities in respect of assessing whether or not an NFP entities interests in other entities give rise to subsidiaries, investments in associates or investments in joint ventures. However, staff suggest limiting application of the NFP concession in paragraph 9A(b) to cases where there is no legislative requirement to perform size test for public lodgement purposes at a consolidated level.

Q9 to the Board: *Subject to any decisions of the Board in respect of Q2:*

- a) *does the Board agree with staff view in paragraph 89 that the proposed differential treatment for NFP entities in respect of assessing whether or not a NFP entity's interests in other entities give rise to subsidiaries, investments in associates or investments in joint ventures is justified and meets the requirements of The AASB's Not-for-Profit Entity Standard-Setting Framework?*
 - i. *if not, does the Board wish to proceed with the alternative in paragraph 91 that NFP entities should be required to undertake the assessment and make the disclosures required by paragraph 9A(a) consistently with for-profit entities?*
- b) *if yes to (a), does the Board agree with staff view in paragraph 89 that paragraph 9A(b) as proposed in ED 293 should be amended to only apply to circumstances where there is no legislative requirement to make this assessment?*
 - i. *if yes to (b), does the Board agree with the suggested drafting in paragraph 89? If not, what drafting does the Board suggest?*
 - ii. *if not, does the Board agree that no changes are needed to the wording in paragraph 9A(b) as proposed in ED 293?*

Staff also assessed whether clarification is required regarding which requirements in AAS are considered R&M, especially in light of recent amendment to AASB 1053 via AASB 2019-1 and the clarification in ED 297. Staff has also considered whether an amendment to the paragraph 9A(c) referring to "R&M requirements other than consolidation and equity accounting" would be required.

Q10 to the Board: *Does the Board agree with the staff view in paragraph 95 that no further clarification regarding R&M requirements in Standards is warranted, however it is important to ensure that this amendment and the related outcomes are communicated with stakeholders and constituents?*

Q11 to the Board: *In respect of the proposed drafting of paragraph 9A(c):*

- a) *does the Board agree with staff recommendation to change the drafting in paragraph 9A(c) proposed in ED 293 as suggested in paragraph 98, to provide a clear disclosure regarding compliance with the R&M requirements in AAS excluding consolidation and the equity method of accounting?*
 - i. *if yes, does the Board agree with the suggested drafting?*
 - ii. *if not, what alternative drafting does the Board suggest?*
- b) *if no to(a), does the Board wish to remove the drafting in paragraph 9A(a) as suggested in paragraph 99 and only require an entity to disclose whether or not they have complied with the R&M requirements in AAS (including consolidation and the equity method of accounting) as per paragraph 9A(c)? If not, what does the Board suggest?*

For further details, refer to **Key matter 3** in Appendix C.

Summary of respondent feedback

Seven out of 12 respondents agreed that the proposals will result in financial statements useful to users and are in the best interest of the economy with the benefits outweighing the costs. These same seven respondents also agreed with the proposed effective date with some specific comments noting that the effort and time required to implement the proposed disclosures would be minimal and / or is not expected to be significant.

Three out of 12 respondents disagreed mostly due to the view that proposed disclosures do not enhance usefulness of SPFS to their users considering the time and costs associated with the proposals will outweigh the benefits. Another respondent that disagreed was also concerned with the application of the standard-setting due process. These same four respondents disagreed with the proposed effective date as they were concerned with the time available to properly implement the proposals.

One respondent who did not clearly disagree, however expressed concerns about the potentially disproportionate cost imposed on smaller and NFP entities.

For further details refer to paragraphs [101](#) to [124](#).

Summary of Staff recommendations and Questions to the Board

Staff noted that the project proposing to remove ability to prepare SPFS for certain for-profit private sector entities is expected to be completed by 1 July 2020 and, in due course, for NFP entities. Staff noted that the Board assessed that the proposed disclosures would help entities assess the impact of any future transition from SPFS to GPFS.

Accordingly, staff considered making the application of the proposals in ED 293 to the for-profit entities subject to the outcome of proposals contained in ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. However, NFP entities will still be able to lodge SPFS when required to prepare and lodge financial statements by legislation after proposals in ED 297 become effective. On balance staff recommend making the application of the proposals in ED 293 subject to the outcome of the proposals contained in ED 297 for those for-profit private sector entities within the scope of ED 297 to reduce reporting burden given the proposals in ED 293 will be potentially applicable only for 1 year for these entities.

Q12 to the Board: *Subject to any decisions on the Board in respect of Q3, does the Board agree with the staff recommendation in paragraph 117 that in respect of for-profit private sector entities within the scope of ED 297, the proposed application of the proposals in ED 293 be deferred subject to the outcomes of the proposals contained in ED 297 (i.e. the proposals in ED 293 would only be implemented for those entities within the scope of ED 297, if the ED 297 proposals do not proceed)? If not, does the Board wish to proceed with the proposed amendments as planned, but amend the requirement in paragraph 9A(c) proposed in ED 293 to simply require an entity that has not assessed compliance with the R&M requirements in AAS to disclose that fact as suggested in paragraph 118?*

Summary of Staff recommendations and Questions to the Board (continued)

Staff noted that the Board had previously considered the costs expected to be incurred with the proposed disclosure requirements relative to the expected benefits. In line with the majority of the respondents, the Board did not expect the cost of implementation to be significant given entities are not required to change their accounting policies, provide any quantitative information or reconciliations. Therefore, it is not expected that the additional narrative disclosure required by the proposed amendments would require significant additional time or costs as suggested by those respondents who felt the costs would exceed the benefits.

Staff noted that *AASB Policies and Processes* stipulate that in normal circumstances a Standard would be issued during the annual reporting period prior to its effective date, however, non-onerous nature of the disclosures and the findings of the research warrant taking urgent action.

For some (especially smaller NFP) entities, some additional time, effort and expertise could be required to determine extent of compliance but given this understanding is part of good governance, any cost would be reasonably expected to be outweighed by the benefits. Staff also note ACNC's generally supportive view on the proposals and the non-onerous nature of the proposals.

Staff also considered deferral of the effective date for NFP entities to annual reporting periods starting on or after 30 June 2020 to enable NFP entities to assess the impact of new disclosures.

On balance and based on the feedback received, staff recommends the Board to maintain the proposed effective date of reporting periods ending on or after 30 June 2020 for NFP entities.

Q13 to the Board: *Subject to any decisions on the Board in respect of Q2, does the Board agree with the staff recommendation in paragraph 119, that the ED 293 proposals should proceed as planned for NFP entities?*

If not, does the Board wish to defer the effective date of the proposals for NFP entities for a further 12 months as suggested in paragraph 120 (effective for annual reporting periods ending on or after 30 June 2021) to allow NFP entities additional time to prepare for the proposed disclosures?

If not, does the Board wish to proceed with the proposed amendments as planned, but amend the requirement in paragraph 9A(c) to simply require an entity that has not assessed whether or not they have complied with the R&M requirements in AAS to disclose that fact as suggested in paragraph 118?

For further details, refer to **Key matter 4** in Appendix C.

Other matters	<p>Summary of respondent feedback</p> <p><i>Application of the standard-setting frameworks</i></p> <p>The feedback from respondents was mixed, 50% agreed while number of those who disagreed noted that the proposed disclosures are specifically designed for special purpose financial statements which, arguably, is not in the AASBs remit. Several respondents also ascertained the differential reporting for NFP entities in respect of AASB 10 not in compliance with AASB’s standard setting frameworks.</p> <p><i>Feedback obtained from webinar participants</i></p> <p>Other feedback obtained from webinar participants which has not been addressed elsewhere, related to requiring disclosures which summarise the types of information that have not been disclosed for clarity, such as related party transactions or illustrating omission of certain disclosure requirements.</p> <p>For further details refer to paragraphs 125 to 138.</p>
	<p>Summary of Staff recommendations and Questions to the Board</p> <p>Staff noted both standard-setting frameworks do acknowledge there are some AAS (i.e. AASB 101, AASB 107 <i>Statement of Cash Flows</i>, AASB 108, AASB 1048 <i>Interpretation of Standards</i> and AASB 1054) that must be applied regardless of whether an entity prepares GPFS or SPFS. Staff also note the Board’s view expressed in paragraph BC40 of ED 293 that “...especially the requirement in paragraph 9 of AASB 1054, together with the needs of users noted in paragraph BC19 above, provided a sufficient basis for requiring the disclosures in special purpose financial statements proposed in this Exposure Draft.” It therefore continues to be staff view that the requirements of the standard-setting frameworks have been met.</p> <p>Q14 to the Board: <i>Does the Board agree with staff view that the requirements of the AASB’s standard-setting frameworks have been met?</i></p> <p>Staff noted feedback received suggested that the Board should also consider providing illustrative examples illustrating instances where non-compliance with AAS was limited to disclosure deficiencies. In staffs’ view, these disclosures may be useful for users of SPFS, however, the scope of this project and related proposed amendments is aimed at increasing the transparency and comparability of SPFS and is specifically aimed at understanding whether or not an entity has complied with the R&M requirements in AAS. Accordingly, in staff view, matters relating to disclosure deficiencies are beyond the narrow scope of this project and should therefore need not be considered at this time.</p> <p>Q15 to the Board: <i>Does the Board agree with staff view that matters relating to disclosure deficiencies in SPFS are beyond the scope of this project and therefore need not be considered at this time?</i></p> <p>For further details, refer to Other matters identified by staff.</p>

Next steps

- 8 Agenda Paper 12.0 of the June 2019 meeting included a suggested timeline for the proposed amendments, anticipating the issue of the Standard in early November 2019. Based on the feedback received from respondents and subject to the Board's decision at September 2019 meeting staff made some changes to the timeline (such as allowing additional time to draft the amending standard) and presented below.

Task	Date
Staff to liaise with Office of Best Practice Regulation regarding the need to undertake a RIS-like process.	In progress.
Staff to present collation of feedback to ED 293 and staff recommendations on next steps to the Board.	September Board meeting.
Staff to update the draft amending standard based on the Board's feedback.	20 September – 17 October.
Staff to circulate pre-ballot draft of the proposed amending standard to the Board out of session with a two-week comment period.	17 October. Comments due by 31 October.
Staff to update the pre-ballot draft of proposed amending standard for comments received from Board members.	1 November – 13 November.
Staff to circulate ballot draft to the Board with a one-week voting period.	13 November. Comments due by 20 November.
Update ballot draft (if needed) for minor editorial changes after voting period ends and issue final Amending Standard.	27 November.

Question for Board members:

Q16. Do Board members have any comments on the proposed timeline to implement the proposals?

Legend (shading)

Green = Respondent agrees

Amber = Did not express a clear view

Pink = Respondent disagrees

* = Response implied/extracted from other section of submission

Appendix A: Summary of written responses to each question

	SMC 1	SMC 2	SMC 3	SMC 4	SMC 5	SMC 6	SMC 7	SMC 8
R1 - PWC	Agree	Agree	Agree	Agree*	Agree*	Agree*	Agree*	No comment
R2- Nexia	Disagree – no benefit for SPFS and different interpretations of R&M existing in AASB 10, 11 and 128 and recommend clarifying	Agree – proposals not urgently needed, although agree if to proceed, only entities required to lodge with ASIC under Part 2M.3 and registered charities required to report directly to ACNC	Disagree to disclose why AASB 10 and 128 have not been applied. Will add costs and SPFS have no users	BC34-36 inconsistent. Recommend deleting or revising examples 7 and 8 in IG7	Disagree – insufficient time for affected entities to prepare	Agree	Agree	The proposals would not result in more useful SPFS to users.
R3 – ACNC	Agree – however must be balanced with AASB’s work on NFP financial reporting framework	Consider entities lodging on other public registers and charities using IA Act 1981 may not comply with 1054	Agree – disclosure of R&M may cause greater consideration of standards adopted as ACNC does not have a similar requirement as RG 85 to comply with R&M	Agree – however concerns regarding example 8	Agree	Agree	Agree – important smaller charities given option to state no assessment made in accordance with AASB 10 and AASB 128	No comment
R4 – CAANZ/C PA	Accept that there is a need to improve the consistency and comparability of financial statements on the public record*	Unclear*	Disagree - proposals go beyond a simple 'comply or not comply' imposing cost > benefit for small and NFP entities*	Unclear – proposals do not clarify which requirements in the AAS are considered R&M	Applicable reporting periods already commenced, reducing time for entities to adapt*	No comment	No comment	Stakeholders would benefit from the publication of near final research*
R5- Pitcher Partner	Agree – Support increasing transparency although costs exceed benefits	Disagree – proposals are not urgently needed and should not apply to not-for-profit entities	Disagree – no publicly available evidence produced showing a substantial volume of users’ decisions impacted currently*	No comment	Disagree – insufficient time provided to communicate and address by entities	No comment	Disagree* – proposals should not apply to NFP entities	No comment
R6 – EY	Agree	Should apply to all those preparing SPFS including voluntary.	Agree – AASB 127.16(a) should be made mandatory for Tier 2 entities	Unclear	Agree	Agree - requiring explicit statements is contrary to the IASB’s IFRS Practice Statement 2	Disagree – NFPs should assess their interest in other entities in the same way as for-profits	No comment
R7 - QBE	Agree*	Agree*	Agree*	Agree*	Agree*	Disagree – prefer to remove ambiguity around whether an entity has subsidiaries	Agree*	No comment
R8 – AICD	Unclear – SPFS are designed to meet the needs of specific users	Concerned about increasing the reporting burden and costs exceeding benefit especially with charities*	Disagree - SPFS by nature don’t necessarily comply with R&M for specific users and will increase complexity for a short period*	No comment	Disagree – insufficient time, recommend effective date for annual periods after 30 June 2020*	No comment	No comment	Reconsider need for the proposals as the framework sets standards for GPFS and not SPFS*

	SMC 1	SMC 2	SMC 3	SMC 4	SMC 5	SMC 6	SMC 7	SMC 8
R9 – Keith Reilly	Unclear*	Unclear*	Disagree – short term measure adding un-necessary costs*	No comment	Disagree – insufficient time for affected entities to prepare*	No comment	No comment	Suggests focus on significant economic entities to produce GPFS*
R10 – Seward Dawson	Agree	Agree	Agree – although could be improved by stating ‘... comply with all the material R&M requirements...’	Agree	Agree	Agree	Agree	AASB 10 does not provide best information in circumstances and to review AASB 10 Appendix E
R11 - KPMG	Agree	Agree – updating APES 205 would increase effectiveness of proposed disclosures	Agree – consider disclosure where an entity has not made any disclosures in respect of balances or types of transactions	Agree – potential to encourage boilerplate disclosures	Agree	Agree	Disagree – NFP entities should be required to make this disclosure	No comment
R12 - IPA	Agree	Agree – should apply to all those preparing SPFS	Agree – include paragraph 19A-19G and/or 24-31 of AASB 12. Does not support differential reporting on subsidiaries	Agree	Agree	Agree	Disagree – differential requirements for disclosures related to subsidiaries*	No comment

	GMC 9	GMC 10	GMC 11	GMC 12	GMC 13
R1 - PWC	No comment	No comment	Agree*	Agree*	Improve without incurring significant additional cost for affected entities*
R2- Nexia	No comment	No comment	If SPFS currently satisfies users' needs, the disclosure does not make the reports more helpful	Disagree – costs exceed the potential short-term benefits of the proposals	Disagree – costs exceed the potential short-term benefits of the proposals
R3 – ACNC	Agree	Not aware	Agree	Agree	44% of reports submitted by medium and large charities were SPFS which will be affected
R4 – CAANZ/CP A	The standard setting frameworks does not set standards for SPFS*	Short term measures have the potential to confuse stakeholders and divert their attention from the broader reform process*	Not clear these additional disclosures will assist their understanding of financial statements, particularly without appropriate education	No comment	No comment
R5- Pitcher Partner	The proposals are designed for SPFS which, arguably, is not in the AASBs remit.	Review of RG 85 to ensure consistency in requirements	Disagree – adopting the revised Conceptual Framework will be significant undertaking and should focus on this	Disagree – users and preparers should be considered rather than short-term disclosures	Disagree*
R6 – EY	Agree – except NFP not determining whether their investments in other entities give rise to subsidiaries, associates or joint ventures	Not aware	Agree	Agree	Agree*
R7 - QBE	Agree*	Not aware*	Agree*	Agree*	Does not envisage these requirements adding materially to costs*
R8 – AICD	The proposals are designed for SPFS which, arguably, is not in the AASBs remit*	No comment	Disagree – SPFS designed for specific users who can demand information required*	Disagree – unhelpful additional complexity*	Disagree – incurred costs may not be commensurate by value gained*
R9 – Keith Reilly	Insufficient time for those entities likely to be impacted by the proposals to properly implement the disclosures*	No comment	Disagree*	Disagree - contrary to the Government's mandate to reduce un-necessary business compliance costs*	Disagree – proposals will add un-necessary costs *
R10 – Seward Dawson	Agree*	No comment	Agree	Agree*	Additional costs will not be significant
R11 - KPMG	Agree	Not aware	Agree	Agree*	The benefits outweigh the costs of the proposals
R12 - IPA	Differential reporting of subsidiaries proposed of AASB 1054 is not in accordance with the AASB's standards setting frameworks.	Not aware	Agree	Agree	Agree*

Appendix B: List of respondents

9 The Board received 12 written submissions on ED 293:

List of written submissions

Submission no.	Respondent	Type of organisation
R1 – PwC	PwC Australia	Professional services firm
R2 – Nexia	Nexia Australia	Professional services firm
R3 – ACNC	Australian Charities and Not-for-profits Commission	Regulator
R4 – CAANZ / CPA	Chartered Accountants Australia and New Zealand CPA Australia	Professional bodies
R5 – Pitcher Partners	Pitcher Partners	Professional services firm
R6 – EY	Ernst & Young	Professional services firm
R7 – QBE	QBE Insurance Group	Preparer
R8 – AICD	Australian Institute of Company Directors	Professional Body
R9 – Keith Reilly	Keith Reilly	Other – Financial Reporting Advisor
R10 – Saward Dawson	Saward Dawson	Professional services firm
R11 – KPMG	KPMG	Professional services firm
R12 – IPA	Institute of Public Accountants	Professional body

Appendix C: Detailed analysis of key matters identified by staff

Key matter 1 Do the proposed disclosures improve transparency and comparability?⁴

10 The majority of feedback received support that the proposals will improve the transparency of publicly lodged SPFS and will also improve the comparability of SPFS.

Respondents to ED 293	Webinar polling question ⁵ (Note: 92 out of 124 participants responded to this polling questions)
<ul style="list-style-type: none"> • 67% (eight⁶ out of 12) agreed. • 8% (one⁷ out of 12) disagreed. • 25% (three⁸ out of 12) did not express a clear view.⁹ 	<ul style="list-style-type: none"> • 75% (69) agreed. • 3% (3) disagreed. • 22% (20) were unsure.

11 Three of those respondents to ED 293 that agreed provided the following additional observations:

- (a) "The need for disclosure must be balanced with work on the not-for-profit (NFP) Financial Reporting Framework which, if the proposed tiers and reporting requirements were set, could potentially result in the proposed disclosures in this ED to no longer be relevant" (R3 – ACNC);
- (b) "We are supportive of the objective to increase transparency in special purpose financial reports" and consider the proposals "will go some way towards achieving this objective" however do not consider that "the benefits of the proposals at this stage will exceed the implementation costs" (R5 – Pitcher Partners); and
- (c) "We consider the increased disclosure increases the transparency of the basis on which the SPFS have been prepared and will assist users to understand the potential cost and complexity of entities transitioning from SPFS to Tier 2 GPFS due to ED 297 ... the proposed amendment confirms the principles described in APES 205 (2015) section 6, ASIC Regulatory Guide 85 and AASB 101.112, 117-124" (R6 – EY).

12 One respondent to ED 293 disagreed on the basis that "entities preparing SPFS are required by AASB 108 to disclose their significant accounting policies which describe the accounting methods adopted by the entity" and that if the Board are concerned about entities "not appropriately disclosing their accounting policies ... attempting to address this disclosure

⁴ ED 293 Specific Matter for Comment 1.

⁵ Participants were asked via a polling question "Do you agree that the proposed disclosures will improve transparency and comparability of SPFS?" The available answers were "yes", "no – give reasons" and "unsure".

⁶ R1 – PwC, R3 – ACNC, R5 – Pitcher Partners, R6 – EY, R7 – QBE, R10 – Saward Dawson, R11 – KPMG and R12 – IPA.

⁷ R2 – Nexia.

⁸ R4 – CAANZ / CPA, R8 – AICD and R9 – Keith Reilly.

⁹ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as 'did not express a clear view' for the purposes of this assessment.

deficiency by introducing more disclosures” is not the solution. Instead, the Board should “raise those matters with the relevant regulators”.

- 13 Staff note that of the three webinar participants who disagreed, none provided additional information to support their view.
- 14 The three respondents to ED 293 that did not express a clear view are R4 – CAANZ / CPA, R8 – AICD and R9 – Keith Reilly). The concerns raised by these respondents relate mostly to increased burden and cost, along with the ‘short-term’ nature of the proposals. These matters are addressed in Key matter 4.
- 15 Staff note that of the 20 webinar participants who were unsure, none provided additional information to explain their view.

Staff analysis and recommendation

- 16 Staff note that on balance the majority of respondents are supportive of the proposed amendments, however as noted above, concerns raised by respondents can be broadly categorised as follows:
 - (a) those who disagree or did not express a clear view (33% or 4 out of 12) do so as in their view the proposed disclosures are too costly/burdensome. This is addressed in Key matter 4); and
 - (b) entities are currently required to disclose accounting policies and if this is insufficient this is a matter for regulatory enforcement.
- 17 Staff note AASB 108 governs the selection and application of accounting policies and that paragraph 117 of AASB 101 *Presentation of Financial Statements* requires an entity to disclose its significant accounting policies. AASB 108 was drafted within the context of *International Financial Reporting Standards* (IFRS Standards) which does not contemplate the preparation of SPFS or that some entities may choose not to apply all of the R&M requirements in AAS. Also, the disclosure of accounting policies as required by AASB 108 can be done in a way that does not reveal the extent of the entity’s compliance with the R&M requirements in AAS.
- 18 This is supported by the findings of AASB Research Report 11¹⁰ and AASB Research Report 12,¹¹ both of which indicate that the quality of disclosures in a significant number of SPFS is not adequate to enable a user to determine what additional information they might need particularly in respect of an entity’s compliance or otherwise with the R&M requirements in AAS. The research reports indicate that for 34% of specified for-profit entities lodging SPFS

¹⁰ [AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities*](#)

¹¹ [AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements*](#)

with ASIC¹² and 44% of medium and large charities lodging SPFS with the ACNC, it was unclear whether or not the entities in question complied with the R&M requirements in AAS.

- 19 While the disclosure of the information proposed in ED 293 is not sufficient to address the problems with publicly lodged SPFS (i.e. a lack of consistency, comparability, transparency and enforceability), the proposed disclosures are an interim measure aimed at providing some measure of transparency to users until the SPFS problem is resolved. This is particularly important given the feedback obtained from users of SPFS which indicated that comparability, transparency, comprehensibility and consistency are what is most important to users when they are reading financial statements.¹³
- 20 In respect of disclosure deficiencies being a matter for regulatory enforcement, the Board's role and expertise is to determine 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 AAS. Accordingly, requiring additional disclosures in SPFS to provide greater comparability and transparency regarding compliance with the R&M requirements in AAS is consistent with this role. It is not the Board's role to enforce the application of AAS.
- 21 Staff considered the alternative option suggested by the respondents that disagreed (i.e. do not proceed with the proposals due to their short-term nature (for example)) and noted that the basis of disagreement was not because the proposals do not improve comparability or transparency but was that it may be a better use of resources to direct attention to the broader financial reporting framework project. Staff believe that the progress of the broader financial reporting framework project is not affected by the proposals contained in ED 293.
- 22 On balance, and after considering the feedback obtained from respondents to ED 293, webinar participants, feedback obtained from users and the findings of AASB Research Report 11 and AASB Research Report 12, staff view is that the disclosures proposed in ED 293 will provide more transparency to users of publicly lodged SPFS and will also improve the comparability of SPFS. Staff note that the concerns expressed by respondents in relation to the proposals in ED 293 largely relate to matters which were considered by the Board in issuing ED 293 (such as the costs versus the benefits of the proposed amendments and their interim nature)(refer also to Key matter 4 for further consideration and options which could be considered by the Board).
- 23 Staff also considered whether it might also be helpful to identify the type of financial statements that have been prepared (i.e. GPFS or SPFS) in the title of the financial statements for the sake of clarity and the avoidance of doubt. Such a disclosure requirement would be consistent with the requirements of both *The AASB's For-Profit Entity Standard-Setting*

¹² Research Report 12 examines the financial reporting practices of for-profit entities, including large proprietary companies, small foreign-controlled proprietary companies, for-profit unlisted public companies and other small proprietary companies, lodging financial statements with ASIC. The findings of Research Report 12 considered in this ED are limited to those that relate to entities within the scope of the proposals in this ED: large proprietary companies, small foreign-controlled proprietary companies and for-profit unlisted public companies limited by guarantee. These entities are referred to herein as the 'specified for-profit entities'.

¹³ AASB Staff Paper *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements, For-profit User and Preparer Survey Results* (December 2018)

Framework and The AASB’s Not-for-Profit Entity Standard-Setting Framework as it would be consistent with the other proposed amendments.¹⁴

24 However, staff note there is a disclosure requirement in paragraph 9 of AASB 1054 for an entity to “disclose **in the notes** whether the financial statements are general purpose financial statements or special purpose financial statements” (emphasis added). While this disclosure is often many pages into the financial statements and is therefore not as easily noticed by a user as it may be, this information is still required to be disclosed. Therefore, on balance staff do not believe it is necessary for the Board to make an additional amendment to AASB 1054 to require an entity to identify the type of financial statements they have prepared in the title.

Question for Board members:

Q1. Does the Board agree with staff view in paragraph 22, that after considering the feedback obtained from respondents to ED 293, webinar participants, feedback obtained from users and the findings of AASB Research Report 11 and AASB Research Report 12, that the disclosures proposed in ED 293 will provide more transparency to users of publicly lodged SPFS and will also improve the comparability of SPFS and therefore the Board should in principle proceed with the proposals in ED 293, subject to any decisions that the Board makes in relation to the other key matters discussed at this meeting?

Key matter 2 Is the scope of the proposals appropriate?¹⁵

25 Feedback received in respect of the scope of the proposals was mixed.

Respondents to ED 293		
<ul style="list-style-type: none"> 67% (eight¹⁶ out of 12) broadly agreed with the scope, however some (see below) suggested the scope may be too narrow and additional entities preparing SPFS should also be required to make the proposed disclosures. 	<ul style="list-style-type: none"> 8% (one¹⁷ out of 12) disagreed with the scope. 	<ul style="list-style-type: none"> 25% (three¹⁸ out of 12) did not express a clear view on the scope.¹⁹

¹⁵ ED 293 specific matter for comment 2.

¹⁶ R1 – PwC, R2 – Nexia, R3 – ACNC, R6 – EY, R7 – QBE, R10 – Saward Dawson, R11 – KPMG AND R12 – IPA.

¹⁷ R5 – Pitcher Partners.

¹⁸ R4 – CAANZ / CPA, R8 – AICD and R9 – Keith Reilly.

¹⁹ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

26 Three of those respondents that broadly agreed with the scope did however suggest that the scope of the proposals may be too narrow, and provided the following additional observations:

- (a) R3 – ACNC noted “the AASB may wish to consider whether other entities should be captured given there are other public registers, besides the ASIC and the ACNC that publish financial statements”. They also noted that due to streamlined reporting arrangements the ACNC accept financial statements prepared to meet other regulations which may not necessarily comply with AASB 1054;²⁰
- (b) R6 – EY felt that the “proposed amendment should apply to all entities preparing SPFS, including those doing so voluntarily” if “the objective of the proposed amendment is to provide increased transparency and comparability to users”. This would also avoid “relying on the Accounting Professional and Ethical Standards Board to make consequential amendments to APES 205”; and
- (c) R12 – IPA “is of the view that the requirement to disclose the R&M principles applied should be required of *all SPFS* regardless of whether the SPFS are lodged with ASIC, ACNC, or other regulators. Furthermore, the IPA believes the AASB should liaise with the APES Board and the AUASB to ensure such a requirement is reflected in the relevant standards issued by those bodies (e.g. APES 315 *Compilation of Financial Information* and ASA 800 *Special Considerations – Audit of Financial Reports Prepared in Accordance with Special Purpose Frameworks*).”

See below for consideration of this feedback in paragraphs 36 to 50.

27 In contrast, another respondent that broadly agreed suggested that “the proposals should only apply to entities required to lodge financial reports with ASIC under Part 2M.3 of the Corporations Act 2001 and those registered charities required to report **directly** (emphasis added) to the ACNC under the Australian Charities and Not-for-profits Commission Act 2012” R2 – Nexia.

28 The respondent to ED 293 that disagreed with the scope (R5 – Pitcher Partners) suggested that the proposed amendments “should only apply to those entities required to lodge financial reports under Part 2M.3 of the *Corporations Act 2001*. The proposals should not apply to NFP entities ...” due to the lower reporting thresholds that apply to NFP entities and the burden already placed upon them due to other new accounting standards.

See below for consideration of this feedback in paragraphs 31 to 35.

29 The three respondents that did not express a clear view are R4 – CAANZ / CPA, R8 – AICD and R9 – Keith Reilly). The concerns raised by these respondents relate mostly to increased burden and cost, along with the ‘short-term’ nature of the proposals. These matters are addressed in Key matter 4 below.

²⁰ The examples provided include Corporations registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act), Incorporated Associations governed by the *Incorporated Association Act 1981 (Queensland)* and also non-government schools reporting directly to the Department of Education.

30 Webinar participants also provided feedback regarding the scope of the proposals. Their feedback included wanting to understand whether the proposals would apply to entities preparing and lodging SPFS with regulators other than ASIC²¹ and the ACNC²², for example, entities lodging SPFS with:

- (a) the Office of the Registrar of Indigenous Corporations (ORIC) and entities required to prepare and lodge financial statements under the CATSI Act;
- (b) State and Territory regulators under State and Territory Legislation that requires compliance with AAS;
- (c) the ACNC voluntarily (i.e. entities other than large and medium charities).

See below for consideration of this feedback in paragraphs 41 to 44.

Should the proposed amendments apply to not-for-profit entities?

Staff analysis and recommendation

Note the staff analysis and recommendations in this section are closely linked with additional discussion regarding the costs versus benefits of the proposals included Key matter 4 and more specifically paragraphs 109 to 124.

- 31 If the proposals were limited to only those entities regulated by the *Corporations Act 2001*, staff note that they would still apply to some NFP entities such as companies limited by guarantee that are not charities. This would have the effect of differential reporting requirements for the same class of entity (e.g. NFP entities would be treated differently depending on whether their requirement to comply with AASB 1054 is included in the *Corporations Act 2001* or the ACNC Regulations).
- 32 Further, the Board's role and expertise, is to determine 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 AAS, and as noted in footnote 22 to paragraph 30, the ACNC has determined that medium and large charities lodging SPFS must comply with AASB 1054.
- 33 As noted in ED 293, 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 NFP entities for the reasons outlined in BC19 of ED 293 such as the need to improve comparability and transparency of SPFS in both sectors as the uncertainty about the extent of compliance with R&M requirements in AAS adversely impacts users in both the for-profit and NFP sectors. There is also evidence of diversity in the application of, and

²¹ The scope of certain AAS (AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054) explicitly apply 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*.

²² The ACNC has stated in Section 60.30 of the [Australian Charities and Not-for-profits Commission Regulation 2013](#) that charities lodging SPFS with them are required to apply, as a minimum, AASB 101, AASB 107, AASB 108, AASB 1031 *Materiality* (though this AAS has now been superseded), AASB 1048 and AASB 1054.

compliance with, the R&M requirements in AAS in SPFS of NFP entities like charities as outlined in AASB Research Report 11, which states that for 44% of medium and large charities lodging SPFS with ACNC, it was unclear whether or not they complied with the R&M requirements in AAS.

- 34 Staff acknowledge that NFP entities are often not as well-resourced as for-profit entities, and that depending on the current level of expertise, some NFP entities, might find it burdensome to determine whether their accounting policies comply with the R&M requirements in AAS. The Board however observed in paragraph BC37 of the Basis for Conclusions accompanying ED 293 that understanding whether or not the entity has complied with all the R&M requirements in AAS 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. Also, as discussed in Key matter 3, ED 293 proposed a concession to NFP entities relating to the assessment of interests in other entities which may give rise to subsidiaries, associates or joint ventures to allow for NFP specific circumstances and proportionality. The Board also confirmed that the amendment would not require an entity to change its existing accounting policies and therefore is not considered to be too onerous.
- 35 Thus, for the reasons outlined above, staff recommend that the proposed amendments should apply to NFP entities that are required by legislation or otherwise to comply with AASB 1054, subject to the matters discussions in paragraphs 119, 120 and 124 and any decisions of the Board thereon Staff's recommendation is consistent with the regulator's (ACNC's) overall views on the proposals.

Question for Board members:

- Q2. Subject to any decisions of the Board in respect of Q13, does the Board agree with the staff recommendation in paragraph 35 above that the proposed amendments should apply to NFP entities that are required by legislation or otherwise to comply with AASB 1054? That is, NFP entities should not be excluded from the scope of these proposals?

Should the proposed amendments apply to all entities preparing SPFS, including those lodging on public registers (other than ASIC and ACNC) and those entities preparing SPFS voluntarily?

Staff analysis and recommendation

Note the staff analysis and recommendations in this section are closely linked with additional discussion regarding the costs versus benefits of the proposals included Key matter 4 and more specifically paragraphs 109 to 124.

- 36 Noting the feedback received from one respondent (R6 – EY) that suggested that all entities preparing SPFS, including those doing so voluntarily, should be required to make the proposed disclosures, staff acknowledge that this was a matter previously considered by the Board.
- 37 As one objective of the proposed disclosures is to provide information to users of SPFS about whether or not the entity has complied with all the R&M requirements in AAS, the Board did previously consider that while there was merit in requiring all entities preparing SPFS (including those doing so voluntarily) to make the proposed disclosures, to do so was not

warranted. This is consistent with the current scope of AAS and the Board's role, which is to determine 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 AAS.

- 38 In making this decision the Board acknowledged that if the proposed disclosures were required only by entities subject to AASB 1054, there may be a large number of entities preparing SPFS that would not be required to make the proposed disclosures (e.g. entities outside the scope of the *Corporations Act 2001* and entities not regulated by regulators requiring compliance with AASB 1054, such as 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 members 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 1054 not being required to make the proposed 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 proposed amendments to the affected AAS.
- 39 Staff note that this matter was considered by the APESB at their August meeting, and that the APESB were not currently proposing amendments to APES 205 (of a nature consistent with those proposed in ED 293), however noted that it is an important issue for them to seek stakeholder views on. Accordingly, the Explanatory Memorandum to Exposure Draft 03/19 *Proposed revisions to APESB Pronouncements* includes commentary on this matter and seeks specific feedback from their stakeholders. The Exposure Draft and Explanatory Memorandum were issued in August with comments expected to be due to the APESB by 15 October 2019.
- 40 Staff will also continue to monitor the work the APESB are undertaking including feedback received in relation to ED 03/19. Staff understand that a summary of feedback received from respondents on ED 03/19 is expected to be presented to the AEPSB at their meeting to be held in November 2019.
- 41 In respect of those entities contemplated in paragraph 30(a) above, AASB Research Report No 5 *Financial Reporting Requirements Applicable to Charities* (October 2017) notes that all Indigenous Corporations must lodge reports with ORIC, and what is to be reported is dependent on specific criteria. Page 22 of ORIC's Corporation reporting guide states:
- "Under the accounting standards the directors of the entity self determine if they are a reporting entity. The determination rests on the self-assessment of whether users exist that are likely to use their financial statements. If it is decided that no interested users are likely to exist the corporation can prepare special purpose financial statements which are not*

prepared in accordance with all the standards. However, under the CATSI Regulations²³, most CATSI corporations are deemed to be reporting entities and are required to produce general purpose financial statements.”²⁴

The lodgement of reports with ORIC also satisfies the ACNC’s reporting requirements where those ORIC regulated entities are also registered with the ACNC.

- 42 In respect of those entities contemplated in paragraph 30(b) above, staff are aware that State and Territory legislation often requires the preparation and/or lodgement of financial statements that comply with AAS. Staff note that while some AAS explicitly apply to entities preparing SPFS (e.g. those entities subject to the *Corporations Act 2001*), entities subject to other legislation or other authority are not explicitly referred to in the application paragraphs of AAS. Instead, the relevant regulators make it clear (or could choose to make it clear) whether and to what extent their regulated entities are required to comply with AAS. Therefore unless specifically required by their respective legislation or regulator to comply with AASB 1054 (like large and medium charities preparing and lodging SPFS with the ACNC), entities subject to State and Territory legislation that require compliance with AAS would not be mandatorily required to make the proposed disclosures in their SPFS.
- 43 Staff contacted various State and Territory regulators to confirm whether or not entities within their remit would be caught by the scope of these proposals, and if not, whether wanted to require compliance with the proposed disclosure requirements. As this outreach is still in progress, staff intend to provide the Board with a verbal an update of this outreach at the Board meeting.
- 44 Similarly, those entities contemplated in paragraph 30(c) above would not be required to comply with the proposed disclosures unless they were required by the ACNC to comply with AASB 1054 (or applied AASB 1054 voluntarily themselves).
- 45 Staff note that if the contemplated amendment were to apply to **all** entities preparing SPFS, the application of AASB 1054 would need to be extended, or alternatively the Board may opt to include the proposed amendments in a separate standalone AAS with a broader application.
- 46 If the proposed amendments were retained in AASB 1054 and the scope of AASB 1054 was extended to **all** entities preparing SPFS, it would also be necessary for the Board to consider whether the other disclosure requirements of AASB 1054 should be ‘turned off’ (i.e. the disclosures required by paragraphs 8 – 16). This may be necessary so that entities that are **not** currently required to comply with AASB 1054 would not be required to make the other disclosures required by AASB 1054, that is, they would not need to disclose audit fees for example if they are not currently required to do so, but would be required to include the

²³ Section 23 of the CATSI Regulations specifies that “For the purposes of subsection 333-15(1) and paragraph 333-15(2)(e) of the Act, a financial report of an Aboriginal and Torres Strait Islander corporation must be prepared in compliance with the accounting standards: (a) to the extent that the accounting standards are capable of applying to an Aboriginal and Torres Strait Islander corporation; and (b) whether or not the corporation is, or would be, regarded as a reporting entity within the meaning of that term in the accounting standards.”

²⁴ Staff have confirmed that the information noted in Research Report No 5 is still current in respect of ORIC regulated entities.

disclosures proposed in ED 293. 'Turning off' certain requirements in AASB 1054 for certain entities preparing SPFS would however add to the complexity of AASB 1054.

- 47 For this reason, there may be merit in including the proposed amendments in a separate standalone AAS as that AAS could contain only the proposed amendments noted in ED 293, and the application paragraph of that AAS could be drafted more broadly so as to capture **all** entities preparing SPFS, including those doing so voluntarily.
- 48 However, staff do not consider that including the proposed amendments in a separate standalone is warranted for the following reasons:
- (a) the ACNC have expressed broad support for the inclusion of the proposed disclosures in SPFS that are lodged with them as they will increase transparency to users and improve the comparability of SPFS. If the proposed disclosures were to be included in a separate standalone AAS, the ACNC would then need to consider whether it was necessary to change the ACNC regulations to include this standalone AAS as being one of those that entities within the scope of the ACNC regulations must comply with; and
 - (b) in the absence of a legislative, regulatory or other requirement to prepare financial statements that comply with AAS, it appears to be more appropriate for the directors or those charged with governance to determine which disclosure requirements in AAS they should comply with in their SPFS in order to meet the needs of their users.
- 49 Therefore, on balance and after considering the possible options, staff recommend that the proposed amendments should remain in AASB 1054 and only be required by entities preparing SPFS and required to comply with AASB 1054, and that the Board continue to leave it to other relevant legislation, other relevant authority or a constitutional document to determine whether other entities subject to that legislation/authority should also comply, as would currently be the case for certain ACNC regulated entities.
- 50 This approach would allow entities the option to voluntarily apply AASB 1054 and adopt the proposed disclosures should they wish to, and would also allow for scenarios such as those outlined in the paragraph 26(a) above where the ACNC Regulations require compliance with AASB 1054, however the ACNC has made a decision to accept financial statements that have been prepared for other regulators' purposes, and which therefore may not comply with AASB 1054.

Question for Board members:

- Q3. Subject to any decisions of the Board in respect of Q2, Q12 and Q13, in the absence of a similar amendment to that proposed in ED 293 being made to APES 205, does the Board agree with the staff recommendation in paragraph 49, that the scope of the proposals should be limited to those entities required to comply with AASB 1054?

Key matter 3 The proposed disclosures²⁵

51 Feedback received in respect of the proposed disclosures was mixed.

Respondents to ED 293 (and webinar participants where relevant)		
<i>(a) The proposed disclosure requirements overall:</i>		
<ul style="list-style-type: none"> 59% (seven²⁶ out of 12) broadly agreed, however some (refer below) suggested certain aspects of the proposed disclosures required amendment. 	<ul style="list-style-type: none"> 41% (five²⁷ out of 12) disagreed. 	<ul style="list-style-type: none"> All of the respondents expressed a clear view.
<i>(b) The implementation guidance and illustrative examples provide an appropriate illustration of the application of the proposed disclosure requirements:</i>		
<ul style="list-style-type: none"> 50% (six²⁸ out of 12) broadly agreed, however some (refer below) suggested certain aspects of the proposed implementation guidance and illustrative examples required changes. 66% (58 out of 88) of webinar participants²⁹ answered yes. 	<ul style="list-style-type: none"> None of the respondents disagreed. 22% (19 out of 88) of webinar participants answered no. They did not provide additional information. 	<ul style="list-style-type: none"> 50% (six³⁰ out of 12) did not express a clear view.³¹ 12% (11 out of 88) of webinar participants were unsure. They did not provide additional information.

²⁵ ED 293 specific matter for comment 3, 4, 6 and 7.

²⁶ R1 – PwC, R3 – ACNC, R6 – EY, R7 – QBE, R10 – Seward Dawson, R11 – KPMG and R12 – IPA.

²⁷ R2 – Nexia, R4 CAANZ / CPA, R5 – Pitcher Partners, R8 – AICD and R9 – Keith Reilly.

²⁸ R1 – PwC, R3 – ACNC, R7 – QBE, R10 – Seward Dawson, R11 – KPMG and R12 – IPA.

²⁹ Participants were asked via a polling question “Do you find the implementation guidance and illustrative examples helpful?” The available answers were “yes”, “no – provide suggestions for examples” and “unsure”. Only 88 of the registered respondents answered this question.

³⁰ R2 – Nexia, R4 – CAANZ / CPA, R5 – Pitcher Partners, R6 – EY, R8 – AICD and R9 – Keith Reilly.

³¹ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

(c) <i>An entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect:</i>		
<ul style="list-style-type: none"> 59% (seven³² out of 12) broadly agreed, with some (refer below) providing additional comments. 	<ul style="list-style-type: none"> 8% (one³³ out of 12) disagreed. 	<ul style="list-style-type: none"> 33% (four³⁴ out of 12) did not express a clear view.³⁵
(d) <i>Where an NFP entity has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures it shall be required to disclose only that fact:</i>		
<ul style="list-style-type: none"> 42% (five³⁶ out of 12) broadly agreed, however some (refer below) suggested certain aspects of the proposed disclosures required amendment. 	<ul style="list-style-type: none"> 33% (four³⁷ out of 12) disagreed. 	<ul style="list-style-type: none"> 25% (three³⁸ out of 12) did not express a clear view.³⁹

(a) The proposed disclosure requirements overall

52 Five of those respondents to ED 293 that broadly agreed suggested certain aspects of the proposed disclosures required amendment and provided the following additional observations:

- (a) R3 – ACNC stated that “charities that prepare SPFS are already making the disclosure about the basis on which the decision to prepare SPFS is made”. Further “the proposal to require if an entity has not consolidated its subsidiaries, to disclose this fact and the reasons why is similar to the group condition we have in place for charities approved to report as a group ...” as “... if a reporting group is not in full compliance with AASB 10, it must include a disclosure note in the annual financial report that provides reasons why and the extent to which compliance was impracticable.” The ACNC noted that “the requirement to provide an explicit statement about whether all recognition and measurement requirements (R&M) in the Australian Accounting Standards have been applied may provide comparability. However, unlike ASIC, ACNC does not have a similar requirement that R&M must be complied with ... but do require charities to disclose the legislative reporting framework”;

³² R1 – PwC, R2 – Nexia, R3 – ACNC, R6 – EY, R10 – Saward Dawson, R11 – KPMG and R12 – IPA.

³³ R7 – QBE.

³⁴ R4 – CAANZ / CPA, R5 – Pitcher Partners, R8 – AICD and R9 – Keith Reilly.

³⁵ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

³⁶ R1 – PwC, R2 – Nexia, R3 – ACNC, R7 – QBE and R10 – Saward Dawson.

³⁷ R5 – Pitcher Partners, R6 – EY, R11 – KPMG and R12 – IPA.

³⁸ R4 – CAANZ / CPA, R8 – AICD and R9 – Keith Reilly.

³⁹ Respondents to ED 293 who did not provide a response to the specific or general comments have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

- (b) R6 – EY stated that “in relation to the requirement to disclose the reason for non-consolidation of subsidiaries, we note the disclosure per AASB 127.16(a) is not mandatory for entities applying Tier 2 reporting requirements. In the interests of consistency and transparency we suggest this disclosure requirement is made mandatory for entities applying Tier 2 reporting requirements”;⁴⁰
- (c) R10 – Seward Dawson suggested that “part(c) could be improved by explicitly stating that ‘... comply with all the material R&M requirements...’”;
- (d) R11 – KPMG stated that “disclosure of whether the financial statements are in compliance with all recognition and measurement requirements of Australian Accounting Standards on its own will unlikely achieve a significant improvement in the information quality of SPFS. It will likely result in boilerplate disclosure in respect of (a). However, we acknowledge the importance of the disclosure in (a) when combined with (c). On this basis, we support the AASB’s decision to propose the amendments in (a) to (c) based on Options 1 and 2 in paragraph BC28 over Options 3 and 4. In our view, ED 293 should also consider discussion around the disclosure of those Australian Accounting Standards where an entity has not made any of the disclosures in respect of balances or types of transactions. For example, if an entity had significant related party transactions but AASB 124 *Related Party Disclosures* were not present at all in the financial statements. For the sake of clarity, we are not recommending a list of which disclosures in AASB 124 have not been made. Rather the fact that there are related party transactions and that the financial statement preparers have elected not to include any of the disclosures in AASB 124”;⁴¹ and
- (e) R12 – IPA suggested that “similar disclosure requirements of AASB 12 *Disclosure of Interests in Other Entities* of paragraphs 19A-19G and/or 24-31 be included as part of the proposed amendments”.

53 Five of those respondents to ED 293 that disagreed provided the following additional observations:

- (a) R2 – Nexia disagreed with the requirement to “disclose the reasons why AASB 10 and AASB 128 have not been applied” as “the majority of companies preparing SPFS do so to meet their legislative financial reporting obligations and have no users of those reports other than shareholders”. They were also concerned about the inclusion of a “nondescript boilerplate response as to why it has not applied disclosure requirements like AASB 10 and AASB 128”. They also noted that if the Board “is intent on requiring entities to make a positive statement of compliance with “measurement and recognition” requirements” then the Board should “specifically address whether compliance with AASB 10, AASB 128 and AASB 11 are recognition and measurement requirements or disclosure requirements” (R2 – Nexia).

⁴⁰ As this feedback relates to the disclosure requirements relevant to Tier 2 GPFs, staff have taken this comment on notice and will consider this, along with other feedback received on the ED 295 proposals in due course.

⁴¹ The feedback regarding considering disclosure of non-compliance with disclosure requirements is addressed in paragraphs 135 and 136.

Clarification regarding what exactly constitutes R&M was also raised by webinar participants and R4 – CAANZ / CPA stating, “the proposals do not clarify which requirements in the AAS are considered “recognition and measurement”, for instance the proposed separation of the consolidation disclosures”;

- (b) R4 – CAANZ / CPA noted that “the ED’s proposed disclosures go beyond a simple ‘comply or do not comply with R&M requirements in AAS approach’. They not only require disclosure of ‘where’ the financial statements do not comply with R&M requirements, the supporting examples appear to go further by suggesting disclosure of information about ‘how’ R&M requirements have not been complied with and ‘why’ R&M requirements have not been complied with”;
- (c) R5 – Pitcher Partners were concerned about the increased burden and cost, along with the ‘short-term’ nature of the proposals, stating that they “do not support the Exposure Draft to require additional disclosures in special purpose financial statements”;
- (d) R8 – AICD noted that “the additional disclosures will unnecessarily increase the reporting burden on businesses and charities”; and
- (e) R9 – Keith Reilly noted that the disclosures will “add un-necessary compliance costs ...” and it “is also contrary to the Government’s mandate to reduce the costs of un-necessary business compliance costs”.

54 The concerns raised by these respondents relate mostly to increased burden and cost, along with the ‘short-term’ nature of the proposals. These matters are addressed in Key matter 4 below.

(b) The implementation guidance and illustrative examples provide an appropriate illustration of the application of the proposed disclosure requirements

55 Three of those respondents to ED 293 that broadly agreed, suggested certain aspects of the proposed implementation guidance and illustrative examples required changes and provided the following additional observations:

- (a) R3 – ACNC noted “concerns with example 8 which provides the option either to list the significant accounting policies where R&M were not fully complied with, or to list the accounting policies that have been adopted which provides an indication where R&M have not been complied with. Both options upon initial reading appear to be negative statements and does not seem to provide the alternative option proposed in IG4, ie where instances of non-compliance are extensive, the charity can choose to disclose the Australian Accounting Standards that have been complied with which is a positive statement. Also, the statement that R&M have not been complied with is repeated in the explicit statement and in both options. Additionally, it needs to be clearer which paragraph the alternative option after ‘OR’ replaces, ie does it replace the explicit statement that SPFS do not comply with R&M or the paragraph relating to ‘The significant accounting policies adopted...’”;
- (b) R6 – EY provide a number of suggested amendments to the illustrative examples:

- (i) Example 2 should “also describe the method used to account for the subsidiaries, consistent with AASB 127.16(c), for example at cost, or at fair value.” In respect of Example 3 “having an accounting policy whereby some subsidiaries are consolidated and others are not is non-compliant with the requirements of AASB 108 in relation to the selection, and consistent application of appropriate accounting policies”; and
- (ii) R6 – EY notes that in their view equity accounting is “a measurement requirement, and therefore disagree that when not equity accounting for an investment in an associate, an entity can still state compliance with recognition and measurement requirements. Similarly, R6 – EY notes that in their view Examples 6 and 7 are also “not compliance with ASIC Regulatory Guide 85 sections 2.5 and 2.6” due to non-compliance with AAS.
- (c) R11 – KPMG suggested considering alternative disclosures in respect of the basis for preparation as all examples “refer to the absence of users who are ‘not in a position to require the preparation of reports tailored to their information needs’.” Example alternative wording is provided in their submission.

56 Two of the respondents that did not express a clear view provided the following additional observations:

- (a) Drawing reference from various paragraphs in the Basis for Conclusions accompanying ED 293, R2 – Nexia “caution the Board against sending potentially inconsistent messages to preparers. BC34 – BC36 states that detailed onerous disclosures are not required and that the Board chose not to apply a prescriptive approach (e.g. a description of the extent of non-compliance). However, Examples 7 and 8 in IG7 illustrates a detailed approach to describe the differences between AAS and the entity’s accounting policies” and “recommend that those examples either be deleted or revised to better illustrate the Board’s stated principle”; and
- (b) R4 – CAANZ / CPA noted that “the proposals do not clarify which requirements in the AAS are considered “recognition and measurement”, for instance the proposed separation of the consolidation disclosures.”

57 Feedback from one webinar participant suggested clarification was required regarding the application of the proposed disclosure requirements to a situation where an entity has taken advantage of the exemption in AASB 10 and has elected not to prepare consolidated financial statements (because IFRS compliant consolidated financial statements including the entity have been prepared by the ultimate or intermediate parent entity). The participant suggested clarification was needed to confirm whether or not the entity would still be required to make the proposed disclosures regarding having subsidiaries even though they are not required to prepare consolidated financial statements.

(c) An entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect:

58 Two of those respondents to ED 293 that broadly agreed provided the following additional observations:

- (a) “Given the proposed requirement is for an entity to state whether they have complied with AASB 10 and 128 accordingly or if no assessment was made to state that fact, then by not providing either of those statements would by deduction mean that the entity has no subsidiaries, investments in associates or joint ventures” (R3 – ACNC); and
- (b) “Requiring explicit statements to this effect is contrary to the IASB’s IFRS Practice Statement 2 *Making Materiality Judgements* which explains that disclosure requirements in IFRS need only be applied if their effect is material, and contrary to ED 296 which proposes to amend AASB 101 to require disclosure of only material accounting policies” (R6 – EY).

59 The respondent to ED 293 that disagreed (R7-QBE) suggested that “for the sake of a simple statement, this would remove any ambiguity around whether an entity has subsidiaries”.

60 Those respondents to ED 293 that did not express a clear view did not provide any additional explanation or observations.

(d) Where an NFP entity has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures it shall be required to disclose on that fact:

61 One of the respondents to ED 293 that broadly agreed provided the following additional observation:

- (a) “The ACNC has received feedback from charities regarding the difficulties in applying the concepts in AASB 10 especially for smaller charities that may not have the resources or technical expertise to interpret the standard. As such it is important that these charities are given the option simply permitting them to state the fact that no assessments have been made in accordance with AASB 10 and 128. There are already significant changes in relation to financial reporting and legislative reform which are impacting charities and the ACNC is mindful of this in the broader environment to not impose further reporting burden to the sector.” (R3 – ACNC).

62 Three of those respondents to ED 293 that disagreed provided the following additional observations:

- (a) R6 – EY believes that “the proposed amendments should be applied consistently across for-profit and not-for-profit SPFS preparers. We consider not making such a determination to be contradictory to AASB 108, which requires an entity to select and apply its accounting policies consistently. We are concerned such a proposal condones both inappropriate and inconsistent application of accounting policy.” Further, in “not having an accounting policy for the treatment of investments in other entities, this example [illustrative example 5] is not compliant with the requirements of AASB 108 in relation to the selection and consistent application of appropriate accounting policies”;
- (b) R11 – KPMG note that “not-for-profit entities should be required to disclose the reasons why” they have not undertaken the assessment. Further, the reporting entity “assessment is required at the individual and consolidated entity level” and they therefore “question whether a not-for-profit entity could make the assessment on the consolidated entity level if it had not first determined whether or not its interests in other entities give rise to subsidiaries”; and

- (c) R12 – IPA notes that it “does not support the differential requirements for not-for-profit entities” and that “the arguments in relation to disclosures not being required in RDR are not relevant as entities complying with RDR would be preparing consolidated accounts”.

63 Those respondents to ED 293 that did not express a clear view did not provide any additional explanation or observations.

Staff analysis and recommendation

64 Staff note that on balance the majority of respondents are broadly supportive of the proposed disclosures, however concerns raised by respondents can be broadly categorised as follows:

- (a) those who disagree (33% or 4 out of 12) with the overall proposed disclosures do so as in their view the proposed disclosures are too costly/burdensome. These concerns are addressed in Key matter 4;
- (b) the proposed amendments, implementation guidance and illustrative examples could be amended to make them clearer and/or less repetitive;
- (c) some of the illustrative examples illustrate instances of non-compliance with accounting standards (i.e. they illustrative SPFS that do not comply with the R&M requirements in AAS which is therefore contrary to ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85) or they illustrate inconsistent application of AAS);
- (d) additional disclosures are suggested (e.g. disclosures similar to those in AASB 12 paragraphs 19A-19G and/or 24-31) and/or clarification of the proposed disclosures is required;
- (e) for-profit and NFP entities should be treated consistently, that is, an NFP entity should be required to determine whether or not its interest in other entities give rise to subsidiaries, associates or joint ventures; and
- (f) clarification is required regarding which requirements in AAS are considered R&M requirement (for example consolidation and the equity method of accounting).

(b) *Illustrative examples and proposed amendments require changes to make them more clear and / or less repetitive*

65 Feedback obtained regarding the usefulness of the illustrative examples is important to ensure that they are most useful to those using them to prepare their SPFS. Accordingly, the detailed feedback will be considered by staff should the Board direct staff to proceed with drafting the final standard.

66 In respect of the suggested changes to explicitly state whether or not an entity has complied with the R&M requirements in AAS, one suggested change is to clarify that the proposed disclosure relates only to compliance with the R&M requirements that are material to the entity (i.e. immaterial instances of non-compliance with an R&M requirement in AAS would not prevent an entity from stating they complied with the R&M requirements in AAS). Staff

believe this is consistent with the Board’s expectation that all AAS requirements apply subject to materiality. This was reflected when preparing ED 293 as the illustrative examples refer to “indicate which **material** recognition and measurement requirements in Australian Accounting Standards have not been complied with” (emphasis added).

- 67 Practice Statement 2 *Making Materiality Judgements* provides non-mandatory guidance on making materiality judgements, and states that an “entity is only required to apply recognition and measurement requirements when the effect of applying them is material.”⁴² However the guidance in Practice Statement 2 is only applicable to reporting entities including those in the NFP private and public sector, with the objective stating that it “...provides reporting entities with non-mandatory guidance on making materiality judgements when preparing general purpose financial statements”.
- 68 While entities preparing SPFS could still refer to Practice Statement 2, they are not within its ‘scope’. Staff note however that similar information is contained in AASB 108, with paragraph 8 stating that accounting “policies need not be applied when the effect of applying them is immaterial”.
- 69 Notwithstanding this, including reference to ‘material’ in the proposed amendments would avoid doubt as to the intended outcome of the proposed disclosure (i.e. to disclose instances of material non-compliance only). Accordingly, staff suggest a further proposed change to paragraph 9A(c) in ED 293 as shown below (underlined text is added text):
- (c) disclose an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards that would have a material effect on the special purpose financial statements of the entity and, if not, an indication of where they do not comply.
- 70 Alternatively, the Board may choose to retain the current drafting of paragraph 9A(c) as proposed in ED 293 and place emphasis on the materiality aspect of disclosing the effects of non-compliance with the R&M requirements in AAS in the non-mandatory material and include a reference to the requirements of AASB 108 in relation to the application of immaterial accounting policies in this respect.

Question for Board members:

- Q4. In respect of the staff recommendation in paragraph 69 does the Board agree with staff recommendation to amend the drafting in paragraph 9A(c) to avoid any doubt as to the intended outcome of the proposed disclosure?
- (a) if the Board agrees, does the Board agree with the suggested drafting? If not, what drafting does the Board suggest?
- (b) if the Board does not agree, does the Board prefer the alternative option in paragraph 70 to retain the current drafting of paragraph 9A(c) and place emphasis on the

⁴² Paragraph 9 of Practice Statement 2

materiality aspect of disclosing the effects of non-compliance with the R&M requirements in AAS in the non-mandatory material?

- 71 Feedback received from respondents to ED 293 indicates that the illustrative examples may be too detailed and therefore may be viewed as being more prescriptive than they should be. With this in mind, the Board may wish to amend the illustrative examples to list only the accounting policies that do not comply with the R&M requirements in AAS (for example “grant income recognition policy does not comply with AASB 1058 *Income of Not-for-Profit Entities*” without the further information such as “the recognition of certain types of grant income has been deferred until the related expenses are incurred”. If this approach was taken it may be useful to include separate narrative in the non-mandatory material accompanying AASB 1054 to illustrate common instances of non-compliance (e.g. income tax, employee benefits etc).

Question for Board members:

- Q5. Does the Board wish to amend the illustrative examples as suggested in paragraph 71 to list only the accounting policies that do not comply with the R&M requirements in AAS and include separate narrative in the non-mandatory material accompany AASB 1054? If not, what does the Board suggest?

- 72 It is also staff view that further clarification that the proposed disclosures would apply to the scenario outlined in paragraph 57 above (an entity taking advantage of the exemption from the requirement to prepare consolidated financial statement consistent with AASB 10) is not required, and this scenario is illustrated in illustrative example 2 in ED 293.

Question for Board members:

- Q6. Does the Board agree with staff view in paragraph 72, that further clarification regarding the application of the proposed disclosure requirements to a scenario in which an entity takes advantage of the exemption from the requirement to prepare consolidated financial statement consistent with AASB 10 is not required?

(c) *Some of illustrative examples illustrate instances of non-compliance with accounting standards*

- 73 In respect of the concerns noted in paragraph 64(c) above, staff note that RG 85 states that “... 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”. Staff note however that research into the extent of compliance with the R&M requirements in AAS in SPFS by specified for-profit entities lodging SPFS with ASIC shows that at least 10% and potentially up to 24% of them do not appear to have followed the guidance outlined in RG 85.
- 74 Staff also note that unlike ASIC, the ACNC does not have a similar requirement or guidance that states that R&M must be complied with. The ACNC however require charities to disclose

the legislative reporting framework, i.e. the ACNC Act and for SPFS, state the five mandatory AAS required by section 60.30 of the ACNC Regulations that underpin the preparation of their financial statements. Research into the extent of compliance with the R&M requirements in AAS in SPFS by large and medium charities lodging SPFS with the ACNC shows that as many as 74% of them are not complying with the R&M requirements in AAS.

- 75 The instances of non-compliance have also occurred in spite of the requirement for such entities to select and apply accounting policies consistently as per AASB 108 (e.g. partial consolidation of subsidiaries).
- 76 Further, non-compliance with the R&M requirements in AAS is one of the problems with SPFS reporting which the Board is proposing to address via its broader project proposing to remove the ability for certain entities to prepare SPFS. This includes the proposals in ED 297 for for-profit entities.⁴³ The scenarios illustrated in ED 293 were selected after considering existing variation and diversity with respect to the compliance with R&M requirements in AAS in SPFS currently seen in practice.
- 77 As the scenarios illustrated in ED 293 are based on existing practices, staff recommend that no amendments are required (subject to any amendments necessary as a result of feedback considered in paragraph 65, and any decisions the Board makes in respect of other matters discussed at this Board meeting) to the illustrative examples which illustrate instances of non-compliance with the R&M requirements in AAS.

Question for Board members:

- Q7. Does the Board agree with staff recommendation in paragraph 77 that no changes are required to the illustrative examples as presented in ED 293 (subject to any amendments necessary as a result of feedback considered in paragraph 65, and any decisions of the Board makes in respect of other matters discussed at this Board meeting)?

(d) Additional disclosures are suggested and / or clarification of proposed disclosures is required

- 78 In respect of the concerns noted in paragraph 64(d) above, paragraphs 19A-19G and/or 24-31 of Practice relate to disclosures made by investment entities which are required to account for investments in subsidiaries at fair value through the profit and loss rather than via consolidation. They require disclosure of among other things, the name of the subsidiary/ies, principal place of business and ownership interest as well as details of any financial support provided or required by the subsidiary.
- 79 Staff note that the Board previously considered whether to require entities to disclose identifying information regarding subsidiaries that have not been consolidated, and while the disclosure of this information might be useful to users of the SPFS, the Board decided not to require such disclosure because, for some entities, particularly those in the NFP sector, this disclosure might be unduly burdensome. This may be the case where entities are not

⁴³ Refer to ED 297 for discussion regarding the problems with SPFS reporting, including that SPFS lack consistency, comparability, transparency and enforceability and are prepared using self-selected accounting requirements rather than a robust and consistent framework like GPFS.

required to determine whether they have subsidiaries in accordance with AASB 10 (refer also to the discussion in paragraphs 82 to 91 below).

- 80 Further, in noting that information about the identity of subsidiaries that have not been consolidated may be useful, the Board considered that disclosure of this information would be in excess of the disclosures required in Tier 2 GPFS as Tier 2 GPFS have no similar disclosure requirements. Feedback received on ED 293 noted however that entities applying Tier 2 GPFS would already be required to prepare consolidated financial statements and therefore such a disclosure would not be necessary as when preparing GPFS all subsidiaries must be consolidated (unless the parent entity applies the exemption in AASB 10). Ultimately this is one of the notable differences between SPFS and GPFS, as in contrast, where an entity is preparing SPFS users cannot be sure whether the entity did not consolidate its subsidiaries consistent with the exemption in AASB 10 or whether it was because they determined that the group was not a reporting entity.
- 81 On balance, staff continue to be of the view that disclosure of information such as that described in paragraph 79 should not be required as it might be unduly burdensome.

Question for Board members:

Q8. Does the Board agree with staff view in paragraph 81 that requiring disclosure of information which identifies subsidiaries which have not been consolidated, while useful, may be too burdensome and should therefore not be required?

(e) *For-profit and NFP entities should be treated consistently*

- 82 In respect of the concerns noted in paragraph 64(e) above, when considering the requirements of *The AASB's Not-for-Profit Entity Standard Setting Framework*, paragraph 22 states that "like transactions and events should be accounted for in a like manner for all types of entities, reflecting their economic substance (transaction neutrality), unless there is a justifiable reason not to do so".
- 83 When proposing the relief for NFP entities, the Board noted that 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 of the *Corporations Act 2001*, the question of whether a proprietary company controls another entity is to be determined in accordance with the requirements of AAS (i.e. AASB 10) even if the standards do not otherwise apply to the company.
- 84 While it is possible that some NFP entities may be structured using a proprietary company structure, staff do not consider this to be common as the share structure of a proprietary company allows the company to distribute profits and pay dividends to shareholders in proportion to their shareholding (noting 15% of the entities in the sample in Research Report 11 were identified as a company or company limited by guarantee). While an NFP entity could be structured as a proprietary company with additional measures in place to prohibit the company from applying income to other than charitable purposes or providing distributions to shareholders, the more common structures for an NFP entity are companies limited by guarantee and incorporated associations.

- 85 The Board noted when developing ED 293 that there is generally no similar / equivalent requirement applying to NFP entities, for example charities, and therefore to require an NFP entity to identify subsidiaries (including those that have not been consolidated) might be unduly burdensome.
- 86 Paragraph 28(d) of *The AASB's Not-for-Profit Entity Standard-Setting Framework* acknowledges that NFP modifications may be justified where the “undue cost or effort of preparing and disclosing information outweigh the benefits. For example, ... differences in resources available to NFP entities when implementing the requirements ...”. Paragraph 29 further sets out considerations for determining whether the issue is so significant to warrant an NFP modification, including referring to the costs of the specific change relative to the benefits.
- 87 As the reporting entity assessment in SAC 1 *Definition of the Reporting Entity* is to be undertaken at both the single entity level and the consolidated entity level when determining whether or not GPFS are required, arguably if the NFP entity has not determined whether or not it has subsidiaries it cannot make an assessment as to whether or not it is part of a group and whether or not the group is a reporting entity. However, unless there is a specific legislative requirement requiring the NFP entity to assess whether it controls other entities for the purposes of a size test or to require the preparation of consolidated financial statements, this element of SAC 1 appears not to be relevant to a NFP entity. For example, staff understand that assessment of the size of a charity (i.e. medium or large) to determine whether it needs to submit an annual financial report to the ACNC is done on an individual company basis and not on a consolidated basis. Staff also note that Commissioner’s Policy Statement: Annual Information Statement CPS 2013/02, paragraph 58 states: “*where a registered charity (a parent charity) is required to prepare consolidated financial statements under Australian Accounting Standards (AASB 10 Consolidated Financial Statements) or otherwise to give a true and fair view of the financial position and performance, and group reporting does not apply, the financial elements of the Annual Information Statement must only relate to the individual charity’s (parent charity) basis.*”
- 88 As noted in paragraphs 82 to 87, if there is no requirement for a NFP entity to consider whether or not their interests give rise to subsidiaries, investments in associates or joint ventures to require them to make this assessment for the purposes of the proposed disclosures appears to be unduly burdensome.
- 89 While it is staff view that the proposed differential treatment for NFP entities in respect of assessing whether or not NFP entities’ interests in other entities give rise to subsidiaries, investments in associates or investments in joint ventures is justified and meets the requirements of *The AASB's Not-for-Profit Entity Standard-Setting Framework*, staff suggest that paragraph 9A(b) is amended to capture the ‘in the absence of a legislative requirement to do so’ scenario. This would result in any NFP entities structured via a proprietary company structure being required to make the assessment (and any other NFP entity required by legislation or otherwise to make this assessment also), but the majority of other NFP entities would not. Paragraph 9A(b) as proposed in ED 293 could be amended as follows (underlined text is added text):
- (b) notwithstanding paragraph (a), in respect of not-for-profit entities, unless required by legislation to do so, if the entity has not determined whether or not its interests

in other entities give rise to interests in subsidiaries, associates or joint ventures, the entity shall instead disclose that fact.

- 90 Alternatively, given there are only expected to be limited instances where a NFP entity is structured via a proprietary company structure, the Board may wish to retain the current drafting in paragraph 9A(b) as proposed in ED 293 without amendment and instead include narrative in the Basis for Conclusions to the final standard (subject to the Board directing staff to prepare one) which acknowledges the Board's consideration of the alternative noted in paragraph 89 and the reasons why the Board decided against such amendment requirement.
- 91 As a further alternative, notwithstanding the requirements of *The AASB's Not-for-Profit Entity Standard-Setting Framework* are met justifying alternative treatment of NFP entities, the Board may wish to remove paragraph 9A(b) and require NFP entities to assess whether its interests in other entities give rise to subsidiaries, investments in associates or investments in joint ventures and instead provide the disclosures required by paragraph 9A(a) consistent with for-profit entities.

Question for Board members:

Q9. Subject to any decisions of the Board in respect of Q2:

- (a) does the Board agree with staff view in paragraph 89 that the proposed differential treatment for NFP entities in respect of assessing whether or not a NFP entity's interests in other entities give rise to subsidiaries, investments in associates or investments in joint ventures is justified and meets the requirements of *The AASB's Not-for-Profit Entity Standard-Setting Framework*?
- (i) if not, does the Board wish to proceed with the alternative in paragraph 91 that NFP entities should be required to undertake the assessment and make the disclosures required by paragraph 9A(a) consistently with for-profit entities?
- (b) If yes to (a), does the Board agree with staff view in paragraph 89 that paragraph 9A(b) as proposed in ED 293 should be amended to only apply to circumstances where there is no legislative requirement to make this assessment?
- (i) if yes to (b), does the Board agree with the suggested drafting in paragraph 89? If not, what drafting does the Board suggest?
- (ii) if no, does the Board agree that no changes are needed to the wording in paragraph 9A(b) as proposed in ED 293?

(f) *Clarification is required regarding whether consolidation and the equity method of accounting is R&M.*

- 92 In respect of the concerns noted in paragraph 64(f) above, staff note that this matter was previously raised with the Board in April 2019 when determining how best to draft the proposed amendments. At that time, staff noted that if the proposed disclosure requirement is expressed only in terms of stating compliance with the R&M requirements in AAS,

consideration might need to be given to clarifying the meaning of R&M (vis a vis presentation and disclosure (P&D)) on the basis that some consider that it is not clear whether consolidation is 'R&M' or 'P&D' (or neither or both). At that time staff undertook research to identify whether this matter had previously been addressed, either explicitly or implicitly, by either the International Accounting Standards Board (IASB) or the AASB. AASB staff also liaised with IASB staff to ascertain the extent to which the IASB has made any comments on its view about the nature of consolidation vis a vis 'R&M' vs 'P&D'. IASB staff noted that this has not been addressed explicitly by the IASB and provided informal comments that Chapter 3 of the IASB's *Conceptual Framework for Financial Reporting* treats the question of whether to consolidate as a question of defining the boundaries of the reporting entity—so neither recognition and measurement, nor presentation and disclosure, and arguably even more fundamental than 'just' recognition, measurement, presentation or disclosure.

- 93 Staff note that internationally the question of whether consolidation, and indeed the equity method of accounting is R&M or P&D (or neither or both) has not required clarification as parent entities preparing financial statements prepare consolidated financial statements unless they meet one of the exemptions / exceptions in IFRS 10 *Consolidated Financial Statements*. This is further supported by paragraph 3.18 of the IASB's *Conceptual Framework for Financial Reporting* which states that "Information provided in unconsolidated financial statements is typically not sufficient to meet the information needs of existing and potential investors, lenders and other creditors of the parent. Accordingly, when consolidated financial statements are required, unconsolidated financial statements cannot serve as a substitute for consolidated financial statements. Nevertheless, a parent may be required, or choose, to prepare unconsolidated financial statements in addition to consolidated financial statements."
- 94 When considering the proposed drafting in ED 293, the proposed amendments were drafted such that it was not necessary for the Board to address this question at that time. This was done by requiring the disclosure of contextual information (i.e. where the entity has subsidiaries, investments in associates or investments in joint ventures, disclosing whether or not they have been consolidated or equity accounted in a manner consistent with the requirements set out in AAS).
- 95 Staff note however that in respect of whether or not consolidation and the equity method of accounting are considered R&M requirements, paragraph BC124 of the recently issued ED 297 states "...paragraph 9 of AASB 1053 now states that the recognition and measurement requirements include both consolidation and the equity method of accounting. The explicit references to consolidated financial statements added to paragraph 18A therefore emphasise their coverage." The amendment to paragraph 9 of AASB 1053 was made via AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*. As such, staff view is that no further clarification regarding what constitutes R&M requirements in AAS is warranted in the Standards due to the recent amendments to AASB 1053 via AASB 2019-1. However, it is important to ensure that the amendment and the related outcomes are communicated with stakeholders and constituents via education sessions
- 96 ASIC, through RG 85, has stated that non-reporting entities, which are required to prepare financial reports in accordance with the *Corporations Act 2001*, must comply with the R&M requirements in all applicable AAS in order to give a true and fair view of their financial

position and results of their operations. However, RG 85 has not made it clear that consolidation is necessary for the financial report of non-reporting entities (i.e. SPFS) to give a true and fair view. As the guide has neither been withdrawn nor updated, it can still be applied.

97 Due to ambiguity in RG 85 about consolidation, some entities currently preparing SPFS and lodging with ASIC, have been doing so by complying with all R&M requirements in AAS except for consolidation and/or the equity method of accounting.

98 As the recent amendment to paragraph 9 of AASB 1053 clarifies that consolidation and the equity method of accounting are also R&M requirements, this may mean that those entities preparing and lodging SPFS with ASIC, which have complied with the requirements of RG 85 (i.e. complied with R&M requirements in AAS (excluding consolidation and the equity method of accounting)) would not be able to continue to confirm they have complied with the all R&M requirements in AAS. As such, staff recommend that the wordings in paragraph 9A(c) proposed in ED 293 is changed as suggested below (underlined text is added text):

(c) disclose an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (excluding consolidation and the equity method of accounting) and, if not, an indication of where they do not comply.

99 As Board has clarified that R&M requirements in AAS include consolidation and the equity method of accounting (refer paragraph 95 above), an alternative to the staff recommendation in paragraph 98 could be to remove the requirement in paragraph 9A(a) proposed in ED 293 to provide the contextual information regarding subsidiaries and investments in associates and joint ventures and only require an entity to disclose whether or not they have complied with the R&M requirements in AAS as per paragraph 9A(c). This option may be viable on the basis the contextual information is not required as the amendment noted in paragraph 95 confirms that consolidation and the equity method of accounting are R&M requirements.

100 If either of the alternatives in paragraphs 98 or 99 were adopted by the Board further amendments would be required to the illustrative examples to reflect the changes to the proposed disclosure requirements.

Question for Board members:

Q10. Does the Board agree with staff view in paragraph 95 that no further clarification regarding R&M requirements in Standards is warranted, however it is important to ensure that the amendment to AASB 1053 and the related outcomes are communicated with stakeholders and constituents?

Q11. In respect of the proposed drafting of paragraph 9A(c):

(a) does the Board agree with staff recommendation to change the drafting in paragraph 9A(c) proposed in ED 293 as suggested in paragraph 98, to provide a clear disclosure

regarding compliance with the R&M requirements in AAS excluding consolidation and the equity method of accounting?

(i) if yes, does the Board agree with the suggested drafting?

(ii) if not, what alternative drafting does the Board suggest?

(b) if no to (a), does the Board wish to remove the drafting in paragraph 9A(a) as suggested in paragraph 99 and only require an entity to disclose whether or not they have complied with the R&M requirements in AAS (including consolidation and the equity method of accounting as per paragraph 9A(c)? If not, what does the Board suggest?

Key matter 4 Cost versus benefit including the short-term nature of the proposals and proposed effective date

101 Feedback received in respect of whether respondents believed that the proposals will result in financial statements that are useful to users and in the best interest of the economy with benefits outweighing the costs was mixed.

Respondents to ED 293		
(a) Cost versus benefit including the short-term nature of the proposals⁴⁴		
<ul style="list-style-type: none"> 59% (seven⁴⁵ out of 12) agreed that the benefits outweigh the costs. 	<ul style="list-style-type: none"> 33% (four⁴⁶ out of 12) clearly disagreed that the benefits outweigh the costs. 	<ul style="list-style-type: none"> 8% (one⁴⁷ out of 12) did not clearly disagree but had concerns about the cost benefit of the proposals.⁴⁸
(b) The proposed effective date⁴⁹		
<ul style="list-style-type: none"> 59% (seven⁵⁰ out of 12) agree with the proposed effective date. 	<ul style="list-style-type: none"> 33% (four⁵¹ out of 12) disagreed with the proposed effective date. 	<ul style="list-style-type: none"> 8% (one⁵² out of 12) did not clearly disagree but had concerns about time needed to implement the requirements.⁵³

⁴⁴ ED 293 general matter for comment 11, 12 and 13.

⁴⁵ R1 – PwC, R3 – ACNC, R6 – EY, R7 – QBE, R10 – Saward Dawson, R11 – KPMG and R12 – IPA.

⁴⁶ R2 – Nexia, R5 – Pitcher Partners, R8 – AICD and R9 – Keith Reilly.

⁴⁷ R4 – CAANZ / CPA.

⁴⁸ Respondents to ED 293 who did not provide a response to the specific or general comments have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

⁴⁹ ED 293 specific matter for comment 5

⁵⁰ R1 – PwC, R3 – ACNC, R6 – EY, R7 – QBE, R10 – Saward Dawson, R11 – KPMG and R12 – IPA.

⁵¹ R2 – Nexia, R5 – Pitcher Partners, R8 – AICD and R9 – Keith Reilly.

⁵² R4 – CAANZ / CPA.

⁵³ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

(a) Costs versus benefits including the short-term nature of the proposals

102 Six of those respondents to ED 293 who generally agreed that the proposals will improve transparency and comparability of SPFS and did not expect significant cost associated with the implementation of the proposals, provided the following additional observations:

- (a) R1 – PwC noted that the proposals will “improve transparency of financial reports that are lodged on public record without incurring significant additional costs for affected entities”;
- (b) R3 – ACNC noted that although they cannot quantify the financial impact of the proposals they have “estimated that based on the information collected in the 2017 Annual Information Statement, 44% of financial reports submitted by medium and large charities (15,073 charities) were SPFS (based on self-declaration in their AIS) which will be impacted by the proposals in the ED.” They further noted that “the proposals are in the best interest of the Australian economy and AASB’s efforts to improving the financial report framework in Australia.” They also noted in that they do not believe the proposed disclosures would “impose an onerous reporting burden on registered charities”;
- (c) R6 – EY noted that “given the relatively low compliance burden, and the advantages derived in terms of comparability and transparency for users of special purpose financial reports, we consider these proposals beneficial to the Australian community”;
- (d) R7 – QBE noted they “do not envisage these requirements adding materially to costs”;
- (e) R10 – Seward Dawson noted that “although this will result in additional costs we do not believe they will be significant”; and
- (f) R11 – KPMG noted that while “some entities might find it burdensome to determine whether their accounting policies comply with the recognition and measurement requirements of Australian Accounting Standards ... in our view, the benefit to users of the financial statements should outweigh the costs”.

103 Those respondents to ED 293 that disagreed provided the following observations:

- (a) R2 – Nexia noted that “the financial costs of the Board’s proposals outweighs any perceived short-term non-financial benefits” and that “if a SPFS currently satisfies the information needs of its users, then adding additional disclosure that those users have not requested does not make those financial statements more useful to those users”. They also noted that “the proposals add additional cost on companies and registered charities. The Board is proceeding with its other proposals to remove SPFS which, when implemented, will result in another round of amendments and costs to those entities”;
- (b) R5 – Pitcher Partners noted that they do not expect the “benefits of the proposals at this stage will exceed the implementation costs to business and not-for-profit entities due to:
 - The short-term nature of the proposals ...; and

- The burden already placed on not-for-profit entities ... with adoption of new accounting standards ...” as not-for-profit entities are “not resourced to consider, implement and comprehend such an extent of changes in one reporting period”.

Further, “special purpose financial reports are currently designed to meet the needs of their specific users. Such users are able to demand whatever information they need. Therefore, based on this information it is not clear to us that the proposals would be useful to those specific users”. Also “users and preparers should be focused on this development, instead of implementing further disclosures to a reporting model that will be redundant in the short-term”;

- (c) R8 – AICD notes that they “acknowledge that special purpose financial statements (SPFS) are not comparable because of their self-assessment approach to compliance obligations” however the AICD “are concerned that ED 293 seeks to create a new reporting regime (for a limited interim period from 1 July 2019) at a time when the broader SPFS regime ... is expected to be overhauled”. “The proposed regime will unnecessarily increase the reporting burden on businesses and charities, which will be most acute for smaller entities”. They are “particularly concerned about the increased reporting burden for charities, since their reporting includes entities with revenues as low as \$250,000. Entities of this size may not have sufficient internal resources to prepare their financial statements and may not understand what the recognition and measurement requirements of Australian Accounting Standards are without assistance from a qualified accountant. Receiving this advice will incur costs that may not be commensurate with the value gained by users of their reports”; and
- (d) The proposals will “add un-necessary compliance costs, given EDs 295 ED General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities and ED 297 Removal of Special Purpose financial Statements for Certain For-Profit Private Sector Entities are intended to remove the ability of most entities to produce SPFRs” and are “contrary to the Government’s mandate to reduce the costs of un-necessary business compliance costs” (R9 – Keith Reilly).

104 The respondent to ED 293 who did not clearly disagree but had concerns about the costs of implementing the proposals and/or the short-term nature of the proposals provided the following additional observations:

- (a) R4 – CAANZ / CPA noted that they “accept that there is a need to improve the consistency and comparability of financial statements on the public record” however “consider that there is greater benefit from engaging and educating all stakeholders likely to be affected by the forthcoming broader reform proposals, than from pursuing the amending standard proposed in the ED”. They also noted “that in many cases substantial resources could be required to identify the necessary content for such disclosures, which could result in a vastly disproportionate impost on smaller and not for profit entities that currently benefit from the proportionality afforded by the option of preparing SPFS”.

(b) The proposed effective date

105 Two of those respondents to ED 293 who agreed with the proposed effective date provided the following additional observations:

- (a) R11 -KPMG noted that “the effort and time required to implement this standard would be minimal and for a majority of impacted entities this information should be readily known”; and
- (b) R12 – IPA noted that “As the amendments only require disclosure of already applied R&M principles, the IPA can see no significant impediment to the proposed application date”.

106 Four of those respondents to ED 293 who disagreed with the proposed effective date provided the following additional observations:

- (a) R2 – Nexia noted “We do not believe that the Board’s timetable provides sufficient time for the amendments to be communicated and addressed by those affected entities.

Once the Board confirms and issues its proposed amendments it will take some time to communicate and educate clients on the effects of these changes. The Board has previously issued significant amendments immediately prior to Christmas (for example, AASB 1058, AASB 2016-8, AASB 2018-8). Amendments issued during the Christmas/summer holidays are generally not identified or their effects considered by financial statement preparers before the following February. In practice, advisors have less time to communicate and educate, and preparers have less available time to prepare for changes, than the Board may appreciate.

Many companies and not-for-profit entities use third party software solutions to generate their financial statements. There is no guarantee that those suppliers and vendors will be able to amend their systems within a four month timeframe”,⁵⁴

- (b) R5 – Pitcher Partners noted that “we do not believe that the timetable provides sufficient time for the amendments to be communicated and addressed by those affected entities.

In practice both the IASB and the AASB provide a minimum of 12-months-notice before the application date of new or revised standards ... We do not support a lesser time being provided for these current proposals”. They also noted that “special purpose financial reporting has existed for many years without any additional disclosures of this nature” and that “at this time, no publicly available evidence has been produced showing that a substantial volume of users has had their decisions impacted by currently available special purpose financial reports, noting that less than 1% of trading entities produce special purpose financial reports (based on the AASB’s previous analysis)”;

⁵⁴ AASB 1058 Income of Not-for-Profit Entities, AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* and AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*

- (c) R8 – AICD suggests “that the effective date be for annual periods after 30 June 2020 to allow sufficient time to absorb the new reporting requirements”; and
- (d) R9 – Keith Reilly noted that “normal due process would require at least 1 year or more before the new requirements apply”.

107 The respondent that did not clearly disagree (R4 – CAANZ / CPA) noted that “should the AASB proceed with issuing an amending standard as proposed, it will apply in most cases to a reporting period that has already commenced (i.e., reporting periods commencing on or after 1 July 2019). This significantly reduces the time needed for the preparers and auditors of the financial reports of affected entities to consider, understand and adapt to the change.”

108 Webinar participants were asked via a polling question whether or not they planned to early adopt. 90 webinar participants responded to this polling question and responses were mixed, with 37% responding ‘yes’, 29% responding ‘no’ and 34% responding that they were ‘unsure’.

Staff analysis and recommendation

Note the staff analysis and recommendations in this section are closely linked with additional discussion regarding the scope of the proposals Key matter 2 and more specifically paragraphs 31 to 50.

109 Staff note that on balance the majority of respondents to ED 293 are supportive of the proposed amendments and did not believe the costs would exceed the benefits. A majority of respondents also agreed that the proposed effective date is also appropriate, however concerns raised by respondents can be broadly categorised as follows:

- (a) no change is required especially given the broader project proposing to remove the ability for certain entities to prepare SPFS;
- (b) the costs to implement the proposed disclosures exceed the benefits; and
- (c) entities will not have sufficient time to prepare given the annual period to which the proposed disclosures may apply is already underway (i.e. the proposed effective date is too soon).

(a) No change is required, especially given the broader project proposing to remove the ability for certain entities to prepare SPFS; and

(b) the costs to implement the proposed disclosures exceed the benefits.

110 In respect of the concerns noted in paragraph 109(a) and 109(b), staff note that the Board considered⁵⁵ the view of some that SPFS not always disclosing the fact that they do not comply with R&M requirements of AAS is acceptable because, by inference, 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 that providing users with additional information will better enable them to assess an entity’s level of compliance with the R&M requirements in

⁵⁵ Refer paragraph BC4 of the Basis for Conclusions accompanying ED 293 for discussion on this.

AAS in SPFS. Clear information about the areas of difference may better support users in identifying where additional information is required.

- 111 The SPFS within the scope of these proposals are those which are publicly lodged and are either freely available (from the ACNC) or available at low cost (from ASIC). There is also evidence of users of these SPFS based on the feedback obtained from those users in AASB Staff Paper: *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements, For-profit User and Preparer Survey Results*, which noted that 78% of primary users⁵⁶ surveyed noted that issue of consistent application of R&M requirements of SPFS needs to be addressed.
- 112 Staff agree with the majority of respondents to ED 293 who do not believe that significant time and cost will be required to implement the proposed disclosures given the proposals do not require change of the existing accounting policies, they merely require a statement of fact regarding the entities existing accounting policies and practices (subject to any decisions of the Board in respect of NFP entities and Q11 to the Board). Also, the current approach taken leaves discretion for preparers to determine how best to make the proposed disclosures having regard to their particular circumstances and the needs of their users. Staff acknowledge that for some entities, some additional time, effort and expertise will be required to determine extent of compliance but given this understanding is part of good governance, any cost would be reasonably expected to be outweighed by the benefits.
- 113 Further, the proposed disclosure requirements regarding indicating whether or not the entity has complied with the R&M requirements in AAS are not expected to be onerous as the Board does not require a quantification or reconciliation of the extent of non-compliance. They require only the statement and where non-compliance exists, an indication of where the entity's accounting comply. Given the disclosures are narrative in nature and should be tailored to the specific facts and circumstances of each entity, any changes to the accounting software are expected to be limited, if any are required at all.
- 114 Staff acknowledge the interim nature of the proposals noting that the project proposing to remove ability to prepare SPFS for certain for-profit FP entities is currently scheduled to be completed by 1 July 2020 and, in due course, for NFP entities. However, the proposed disclosures would help entities assess the impact of any future transition from SPFS to GPFS and given the findings of AASB Research Report 11 and AASB Research Report 12 which indicate a significant lack of clarity regarding whether or not an entity's SPFS comply with the R&M requirements in AAS. The proposed disclosures will help increase the transparency of publicly lodged SPFS.
- 115 In respect of the scope of the proposals as they apply to for-profit entities, and noting the feedback received from respondents to ED 293 regarding the short term nature of the proposals, staff considered whether it might be appropriate to defer the effective date of the ED 293 proposals for now, subject to the outcomes of ED 297 (i.e. if the proposals to remove SPFS for certain for-profit private sectors entities do not proceed, the proposals in ED 293 would proceed without further delay, however if the ability for certain for-profit private

⁵⁶ 'Primary users' refers to users that meet the definition of primary users in AASB Practice Statement 2 Making Materiality Judgements (i.e. investors (and analysts), lenders and other creditors). Staff also note that the results of the survey are focussed on for-profit entities.

sector entities is removed, the proposals in ED 293 may not be required for for-profit entities).

- 116 Staff note that there may still be a substantial number of for-profit entities who continue to be able to prepare SPFS if the ED 297 proposals proceed, however these entities are those with no legislative or other requirement to prepare financial statements that comply with AAS. If they were, they would be within the scope of ED 297 (noting the relief provided to trusts and certain other entities with a non-legislative requirement to prepare financial statements that comply with AAS in ED 297). Staff are not aware that these entities would have specific requirement to comply with AASB 1054 and therefore consider these entities would not be within the scope of the proposals considered in ED 293 (subject to any decisions made by the Board in respect of Q3).
- 117 On balance staff therefore recommend that in respect of entities within the scope of the ED 297 proposals,⁵⁷ the proposed application of the proposals in ED 293 be deferred subject to the outcomes of the proposals contained in ED 297. This would reduce the reporting burden for entities within the scope of ED 297 acknowledging that the proposals in ED 293 (if effective for annual periods ending on or after 30 June 2020) may only be applicable for one reporting period before the ability for these entities to prepare SPFS is removed.
- 118 Alternatively, to address concerns regarding perceived reporting burden, the Board may wish to amend the requirement in paragraph 9A(c) proposed in ED 293 to simply require an entity that has not assessed whether or not they have complied with the R&M requirements in AAS to just disclose that fact. Any such amendment would need to also consider whether similar to the suggested drafting in paragraph 98 whether it is necessary to clearly include or exclude consolidation and the equity method of accounting from this disclosure. Paragraph 9A(c) could be amended as follows:⁵⁸
- (c) disclose an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards [(excluding consolidation and the equity method of accounting)] and, if not, an indication of where they do not comply. If an entity has not assessed whether or not the accounting policies applied in the financial statements comply with the recognition and measurement requirement of Australian Accounting Standards, it shall disclose that fact.

The suggested drafting outlined above would clearly indicate to users of the SFPS any instance of non-compliance with the R&M requirements in AAS.

Questions for Board members:

Q12. Subject to any decisions on the Board in respect of Q3, does the Board agree with the staff recommendation in paragraph 117 that in respect of for-profit private sector entities within the scope of ED 297, the proposed application of the proposals in ED 293 be deferred

⁵⁷ Principally, entities within the scope of ED297 are those for-profit private sector entities required by legislation or otherwise to prepare financial statements that comply with AAS or accounting standards, with some limited exceptions.

⁵⁸ The amendments illustrated in the '[]' are those recommended by staff in Q11.

subject to the outcomes of the proposals contained in ED 297 (i.e. the proposals in ED 293 would only be implemented for those entities within the scope of ED 297, if the ED 297 proposals do not proceed)?

If not, does the Board wish to proceed with the proposed amendments as planned, but amend the requirement in paragraph 9A(c) as proposed in ED 293 to simply require an entity that has not assessed whether the accounting policies applied in the financial statements complied with the R&M requirements in AAS to disclose that fact as suggested in paragraph 118?

If not, what does the Board suggest?

- 119 Staff considered whether the proposed amendments should apply to NFP entities in paragraph 31 to 35 and recommended subject to any decisions made by the Board in respect of Q2 that the proposals should apply to NFP entities required by legislation or otherwise to comply with AASB 1054. In respect of the proposals as they apply to NFP entities, and noting the feedback received from respondents to ED 293 regarding the disclosure burden, staff considered whether the application of the ED 293 proposals should also be deferred subject to any proposals to remove SPFS for the NFP sector. However, given a significant number of large and medium charities are preparing and lodging SPFS with the ACNC, the low levels of compliance with the R&M requirements in AAS as well as the significant number of medium and large charities for whom it was unclear whether or not they had complied with the R&M requirements in AAS as well as the fact that the broader project of reforming the financial reporting framework for NFP entities would take time, staff recommend that the proposed effective date of the ED 293 proposals should proceed as planned for NFP entities (subject to any decisions made by the Board in respect of Q2). In making this recommendation staff noted that the ACNC is generally supportive of the proposals, and that there are currently no firm plans regarding any proposed removal of the ability to prepare SPFS for NFP entities (i.e. NFP entities will continue to be able to prepare SPFS for some time to come).
- 120 However, the Board may wish to defer the effective date of the proposals for NFP entities for a further 12 months (effective for annual reporting periods ending on or after 30 June 2021) to allow NFP entities additional time to prepare for the proposed disclosures. Staff note that there is precedent for AAS requirements having different effective dates in the for-profit and NFP sectors and therefore any difference in the effective dates would be acceptable.
- 121 In respect of any other regulatory issues that may affect the implementation of the proposals,⁵⁹ the only matters staff were made aware of via the consultation process related to “a review of RG 85 to ensure consistency in requirements” (R5 – Pitcher Partners) and that the “interim short term measures has the potential to both confuse stakeholders and divert their attention from the broader reform process taking place” (R4 – CAANZ / CPA). Staff have been working closely with ASIC, the ACNC, the APESB and other regulators and interested stakeholders to ensure the proposals are communicated and any potential effects are known and can be planned for. In respect the proposals causing confusion for stakeholders, staff

⁵⁹ ED 293 general matter for comment 10

have prepared a summary document outlining the key aspects of the proposals and delivered a webinar too.

(c) *Entities will not have sufficient time to prepare given the annual period to which the proposed disclosures may apply is already underway*

122 *AASB Policies and Processes*, paragraph 43 states that “In normal circumstances the AASB will issue a Standard with a significant time before its effective date, say, during the previous annual reporting period”. Staff note that the proposals have been discussed by the Board since its February 2019 meeting and the benefits of the proposed disclosures coupled with their non-onerous nature warranted the proposed urgent amendment to AAS to provide more transparency to the users of publicly lodged SPFS and to increase the comparability of SPFS with other SPFS and GPFS.

123 However, after considering feedback from respondents, as noted in paragraphs 117, staff recommend deferring the proposed effective date of the amendments for for-profit private sector entities within the scope of ED 297, given the short term nature of the proposals for these entities.

124 In respect the concerns as they apply to NFP entities, as noted in paragraph 119 staff do not recommend deferring the effective date of the proposals, noting that the ACNC is generally supportive on the proposals and as noted in paragraph 113 the proposed disclosure requirements are not expected to be onerous and the Board does not require a quantification or reconciliation of the extent of non-compliance.

Questions for Board members:

Q13. Subject to any decisions on the Board in respect of Q2, does the Board agree with the staff recommendation in paragraph 119, that the ED 293 proposals should proceed as planned for NFP entities?

If not, does the Board wish to defer the effective date of the proposals for NFP entities for a further 12 months as suggested in paragraph 120 (effective for annual reporting periods ending on or after 30 June 2021) to allow NFP entities additional time to prepare for the proposed disclosures?

If not, does the Board wish to proceed with the proposed amendments as planned, but amend the requirement in paragraph 9A(c) to simply require an entity that has not assessed whether or not they have complied with the R&M requirements in AAS to disclose that fact as suggested in paragraph 118?

Other matters identified by staff

Other matter 1. Application of the standard-setting frameworks⁶⁰

125 Feedback received on whether *The AASB’s For-Profit Entity Standard-Setting Framework* and *The AASB’s Not-for-Profit Entity Standard-Setting Framework* had been appropriately applied in developing ED 293 were mixed.

Respondents to ED 293		
<ul style="list-style-type: none"> 50% (six⁶¹ out of 12) agreed that the standard-setting frameworks had been appropriately applied. 	<ul style="list-style-type: none"> 42% (five⁶² out of 12) disagreed that the standard-setting frameworks had been appropriately applied. 	<ul style="list-style-type: none"> 8% (one⁶³ out of 12) did not express a clear view.⁶⁴

126 Staff note that GMC 9 referred to the application of both the for-profit and NFP standard setting frameworks, however there were some instances where respondents referred only to one framework (generally the NFP framework) in their response. Staff also noted that similar concern on application of standard-setting framework was raised by one of the respondents that disagreed as per above in Specific matter for comment 8 (SMC 8). Further comments in SMC 8 were either addressed elsewhere in this paper or are beyond scope of this project.

127 One respondent (R6 – EY) broadly agreed that the AASB’s standard -setting frameworks had been appropriate applied “except for the matters described in our response to Q7 in relation to not-for-profit entities that make no determination on whether their investments in other entities give rise to subsidiaries, associates or joint ventures, we believe *The AASB’s Nor-for-Profit Entity Standard-Setting Framework* has been complied with”.

128 Those who disagreed that the standard-setting frameworks had been appropriately applied gave the following reasons:⁶⁵

- (a) R4 – CAANZ / CPA noted that “the AASB does not currently set standards for special purpose financial statements ... To require additional disclosures seems to be contradictory to this underlying premise ...”;
- (b) R5 – Pitcher Partners stated “The AASB's Standard Setting Framework outlines that the AASB set standards for ‘general purpose financial statements’. However, the disclosures

⁶⁰ ED 293 general matter for comment 9

⁶¹ R1 – PwC, R3 – ACNC, R6 – EY, R7 – QBE, R10 Saward Dawson and R11 – KPMG.

⁶² R4 – CAANZ / CPA, R5 – Pitcher Partners, R8 – AICD, R9 – Keith Reilly and R12 – IPA.

⁶³ R2 – Nexia.

⁶⁴ Respondents to ED 293 who did not provide a response to a specific or general matter for comment have been categorised as ‘did not express a clear view’ for the purposes of this assessment.

⁶⁵ Staff note that R6 – EY and R12 – IPA have been categorised as ‘disagree’ to be conservative, however staff note that they disagree only in respect of the application *The AASB’s For-Profit Entity Standard-Setting Framework* on the basis they do not agree with the ‘concession’ proposed for NFP entities.

outlined in the Exposure Draft are specifically designed for special purpose financial statements which, arguably, is not in the AASBs remit”;

- (c) R8 – AICD stated “The AASB’s Standard Setting Framework outlines that the AASB set standards for ‘general purpose financial statements’, however these disclosures are specifically designed for SPFS which arguably is not in the AASB remit. Given this issue, we would encourage the AASB to reconsider the need to amend the Accounting Standards per the proposals in ED293, at the very least, until the broader review of SPFS is completed”; and
- (d) R12 – IPA states it is “of the view that the differential reporting of subsidiaries proposed of AASB 1054 is not in accordance with the AASB’s standards setting frameworks.”

129 The respondents that did not express a clear view was R2 – Nexia who did not raise any particular concerns.

Staff analysis and recommendation

130 Notwithstanding that both the AASB’s standard-setting frameworks state that the AASB does not currently set standards for SPFS, as SPFS 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, both standard-setting frameworks do acknowledge there are some AAS (i.e. AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054) that must be applied regardless of whether an entity prepares GPFS or SPFS. These application requirements were adopted “as part of moving legacy regulations out of legislation and into Australian Accounting Standards ...”.⁶⁶

131 Paragraph 9 of AASB 1054 also sets a precedent for requiring disclosures in SPFS by requiring preparers to disclose the type of financial statements they have prepared (i.e. GPFS or SPFS).⁶⁷ The Board considered (as noted in BC41 of ED 293) the requirement in paragraph 9 of AASB 1054, together with the needs of users provided a sufficient basis for requiring the disclosures in special purpose financial statements proposed in ED 293.

132 The specific matter relating to differential requirements applying to NFP entities has been separately addressed in paragraphs 82 to 91 above.

133 Thus, based on the above, it is staff view that the requirements of the AASB’s standard-setting frameworks have been met.

Question for Board members:

Q14. Does the Board agree with staff view that the requirements of the AASB’s standard-setting frameworks have been met?

⁶⁶ Paragraph 14 of both standard-setting frameworks.

⁶⁷ Paragraph 9 of AASB 1054 states “An entity shall disclose in the notes whether the financial statements are general purpose financial statements or special purpose financial statements.”

Other matter 2. Feedback obtained from webinar participants

134 Other feedback obtained from webinar participants which has not been addressed elsewhere, related to the following matters:

- (a) Whether this project should also consider requiring disclosures which summarise the types of information that have not been disclosed for clarity. For example, “the entity has not included disclosures relating to Related Party transactions.”

Staff note that this matter was also raised by R11 – KPMG as noted in paragraph 52(d); and

- (b) Whether an illustrative example could be included which illustrates a scenario in which an entity’s only non-compliance with AAS is limited to the omission of certain disclosure requirements.

Staff analysis and recommendation

135 In staffs’ view, while the above disclosures may be useful for users of SPFS, the scope of this project and related proposed amendments are aimed at increasing the transparency and comparability of SPFS and specifically aimed at understanding whether or not an entity has complied with the R&M requirements in AAS.

136 Accordingly, in staffs’ view, matters relating to disclosure deficiencies are beyond the narrow scope of this project and should therefore not be considered at this time.

137 One webinar participant suggested that education regarding this change will be extremely important as preparers need to be made aware of the rationale for these changes in order to understand their importance.

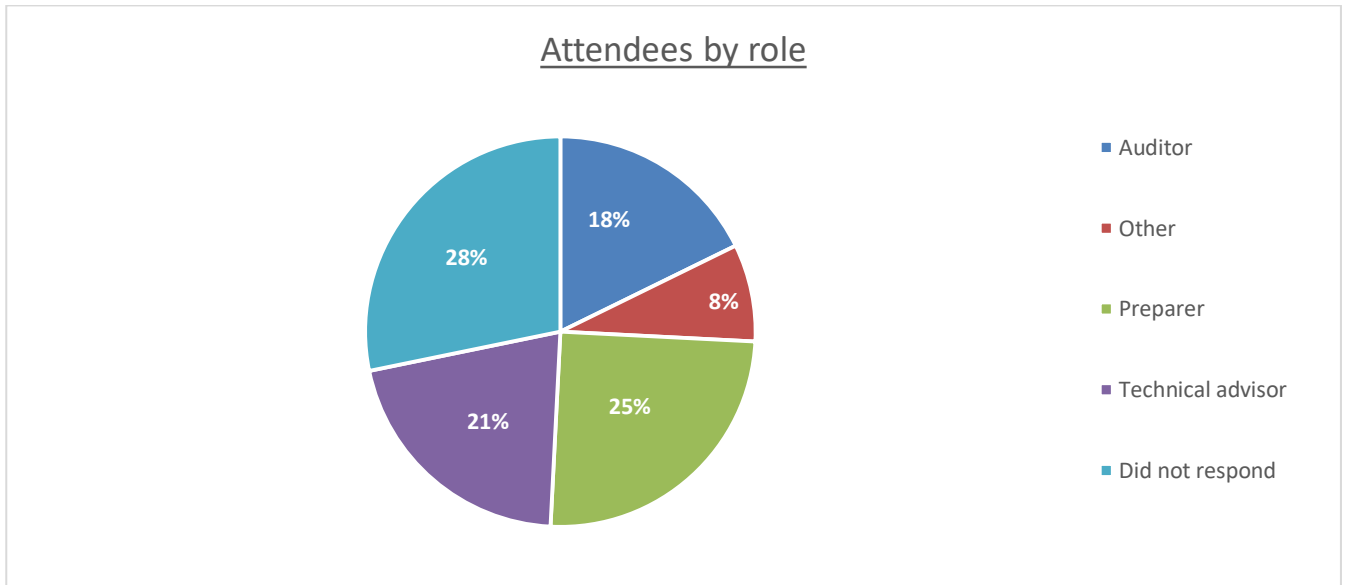
138 Staff acknowledge that education is crucial and to this end have prepared a summary document outlining the key aspects of the proposals, staff have also delivered a webinar on the ED 293 proposals, engaged with other regulators including but not limited to the Australian Auditing and Assurance Standards Board, the ACNC, and other regulators.

Question for Board members:

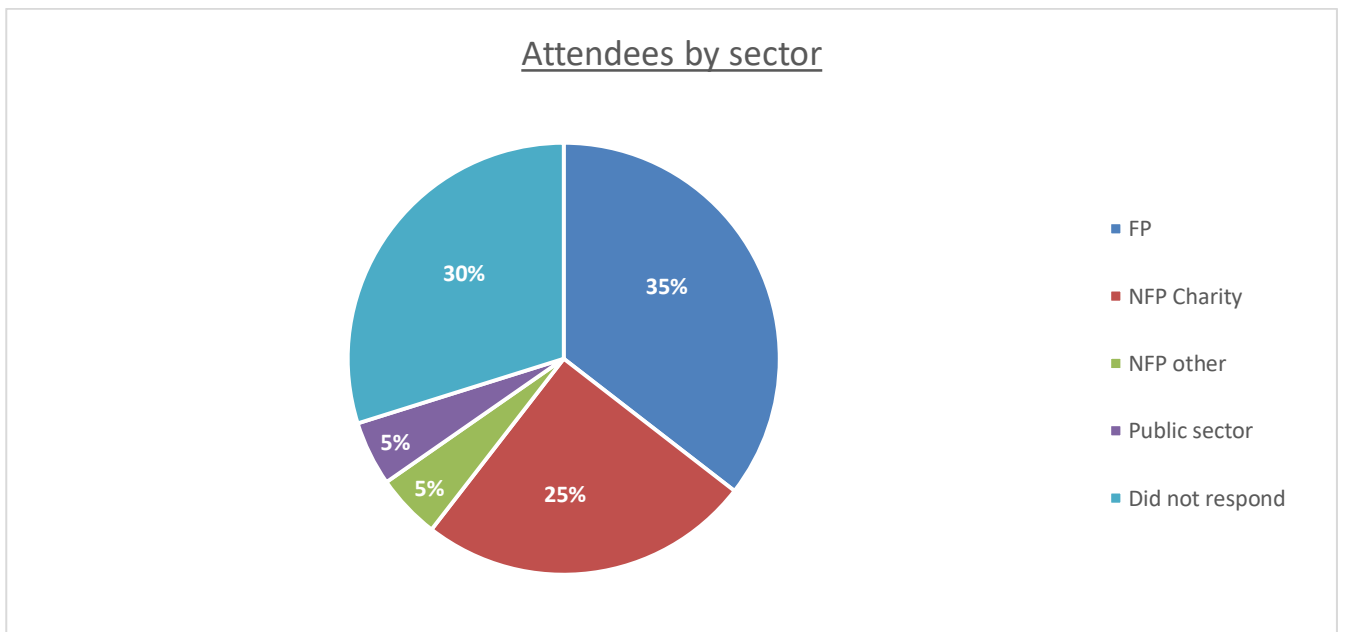
Q15. Does the Board agree with staff view that matters relating to disclosure deficiencies in SPFS are beyond the scope of this project and therefore need not be considered at this time?

Appendix D: Summary of webinar polling questions and participants' responses on 25 July 2019

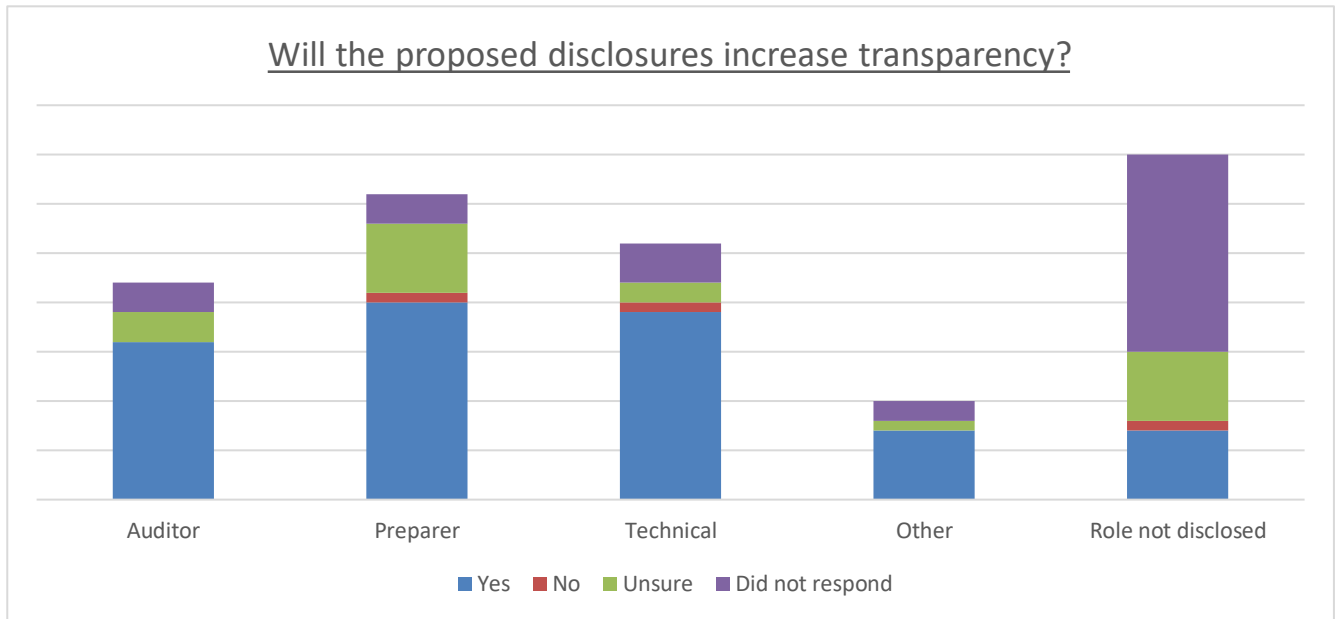
139 Webinar polling question 1 - What is your role (if multiple, please just choose the most prevalent)



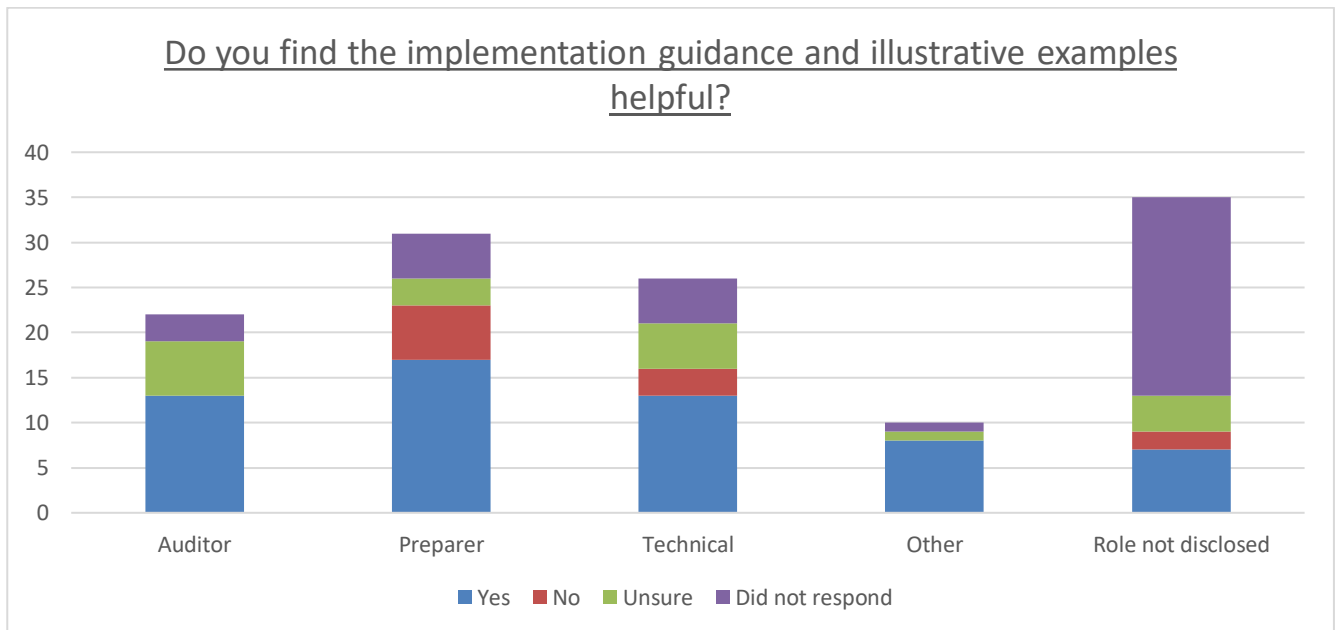
140 Webinar polling question 2 - What sector do you (or your clients) represent (if multiple, please just choose the most prevalent)



141 Webinar polling question 3 – Do you agree that the proposed disclosures will improve transparency and comparability of SPFS?



142 Webinar polling question 4 – Do you find the implementation guidance and illustrative examples helpful?



143 Webinar polling question 5 – In case the proposals are enacted as a final standard prior to 31 December 2019, do you plan (or recommend to clients) to early adopt?

