



# AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 196  
21 February 2019

## Welcome to the AASB Action Alert

The AASB Board met in public in Melbourne on 19 February 2019. At the meeting the Board made key decisions in relation to:

### [Conceptual Framework – For-Profit Entities \(Phase 2\)](#)

### [Tier 2 – IFRS for SMEs Disclosures](#)

### [Legislative Financial Reporting Requirements](#)

### [Not-for-Profit \(NFP\) Entity Definition](#)

### [AASB Approach to IPSASB Standards](#)

The Board also discussed the following topics

### [Financial Statements of Non-Disclosing Entities Lodging with ASIC](#)

### [Goodwill and Impairment](#)

### [Australian Financial Reporting Framework – Approach to NFP](#)

### [Management Commentary](#)

### [International Documents Open for Comment](#)

## Conceptual Framework – For-Profit Entities (Phase 2)

The Board decided to proceed with proposals to remove the ability of for-profit private sector entities to publicly lodge special purpose financial statements (SPFS) after considering:

- responses from financial statement users, preparers and other stakeholders during the public consultation period, including over 160 targeted discussions;
- the findings in AASB Research Reports and commissioned academic research;

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- the results of user and preparer surveys; and
- feedback from regulators.

The accumulated body of evidence indicates there are significant numbers of users of all publicly lodged financial statements and there was widespread acknowledgement, particularly from users, that the current financial reporting framework does not provide consistent, comparable and transparent financial statements. Enforceability was also noted as a key issue. The Board noted the Banking Royal Commission findings highlighted the importance of removing exceptions in legislation and that removing the SPFS self-assessment option would remove an exception and would bring Australia into line with the rest of the world.

Accordingly, the Board determined the following:

- (a) the desired outcome to address the SPFS issue should be a consistent, comparable, transparent and enforceable financial reporting framework for all for-profit private sector entities (within the scope of the Phase 2 proposals) that have a statutory requirement to prepare financial statements that comply with Australian Accounting Standards (AAS) or accounting standards. To achieve this, the Board decided it is necessary to propose in relation to for-profit private sector entities:
  - (i) amendments to AAS to remove the ability for such entities to self-assess their reporting entity status and prepare SPFS; and
  - (ii) all such entities to prepare some form of general purpose financial statements (GPFS);
- (b) the forthcoming Exposure Draft will propose only one Tier 2 GPFS framework, given the small number of entities required to publicly lodge financial statements – currently 12,800 (which is less than 2% of trading entities). The ED will propose replacing the existing Tier 2 GPFS Reduced Disclosure Requirements (RDR) framework with a framework that would still require compliance with all recognition and measurement (R&M) requirements in AAS – including consolidation and equity accounting.

In making this decision, the Board noted the strong preference expressed by the majority of respondents for a framework that includes full R&M in AAS on the grounds that it would enhance the comparability, consistency and transparency of the financial statements. Such a framework would also minimise the costs associated with the transition from SPFS to Tier 2 GPFS for the majority of preparers that, based on feedback received from various forums and the preliminary findings of the AASB's research into the level of compliance with R&M of ASIC regulated entities, are already complying with R&M in AAS (in accordance with ASIC Regulatory Guide RG85). The



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Board noted that 3,000 small foreign-controlled entities already apply either the full R&M requirements in AAS for consolidation by a parent entity or US GAAP, and that large proprietary companies that are consolidated into AASB Tier 1 entities already apply the full R&M requirements.

The Board noted that a minority of respondents had asked the Board to consider *IFRS for SMEs* as an option or alternative for Tier 2 GPFS. However, the Board noted that these respondents did not provide any new arguments as to whether *IFRS for SMEs* would be preferable to full R&M as an alternative Tier 2 GPFS. The Board also noted that *IFRS for SMEs* includes requirements for consolidated financial statements, deferred tax accounting, financial instruments accounting and related party disclosures that are not substantively different to full IFRS R&M requirements. For these reasons, the Board decided not to propose a Tier 2 GPFS framework with differential R&M requirements;

- (c) further research and outreach is required before determining what additional transitional relief might be required to ensure the transition from SPFS to Tier 2 GPFS is not unduly burdensome. This work should give particular consideration to the preparation of consolidated financial statements and the application of equity accounting for the first time, whether comparative information is required in the year of transition, and additional ongoing compliance costs;
- (d) to undertake further research to assess whether it is appropriate to provide grandfathering relief for entities with a non-legislative requirement to prepare financial statements in accordance with AAS, such as a requirement in their trust deed or other compliance document. The Board will consider the number of entities that may be affected and whether it is possible to develop objective criteria related to economic significance for distinguishing those entities that should be required to comply with AAS;
- (e) finalise the research into current compliance with R&M requirements to assist in determining the cost/benefit of the final proposals; and
- (f) the forthcoming Phase 2 ED will be accompanied by a formal Feedback Statement. The Feedback Statement will include details of the research and outreach activities that have been conducted throughout the standard-setting process in order to demonstrate compliance with the *AASB's For-Profit Entity Standard-Setting Framework*.

The Board will continue to consult with a wide range of stakeholders in drafting the proposals to be included in the Phase 2 ED.



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The Board reconfirmed its decision that it is appropriate to progress the for-profit project in advance of the NFP project to improve the financial reporting framework. The Board noted that the for-profit sector entities publicly lodging financial statements have greater levels of economic significance, size and resources, and proportionately are a significantly smaller number (less than 2% of trading entities), compared to approximately 33% of charities preparing financial statements. The Board also noted that the Banking Royal Commission findings, various Senate enquiries on tax avoidance, the existing RG85 guidelines and the preliminary findings of the academic research on compliance with R&M requirements clearly indicate that existing disclosure practices are extremely confusing for users, and with the effective date of the IASB Conceptual Framework, it is imperative to progress the for-profit project.

### Tier 2 – IFRS for SMEs Disclosures

The Board decided to progress developing a separate *IFRS for SMEs*-based disclosure Standard. This would be a new Tier 2 disclosure Standard available for for-profit entities that are not publicly accountable, while retaining the full recognition and measurement requirements of AAS.

The final staff analysis along with a draft Exposure Draft will be considered by the Board at the next meeting.

### Legislative Financial Reporting Requirements

The Board decided to propose that the application paragraphs for AAS in order to implement Phase 2 of the Conceptual Framework project for for-profit private sector entities would:

- (a) not exclude any for-profit private sector entities that are required by legislation to prepare financial statements in accordance with accounting standards;
- (b) refer to compliance with accounting standards and Australian Accounting Standards;
- (c) not refer to 'true and fair view' – staff are to consult with regulators to ascertain whether the reference to 'true and fair view' in their legislation should require compliance with the accounting standards; and
- (d) not encompass financial information required by legislation to comply with accounting standards where that information does not comprise a complete set of financial statements.

The Board supported publication of the Staff Research Report on the financial reporting requirements set out in legislation in Australia.

### Not-for-Profit (NFP) Entity Definition

The Board decided to issue an Exposure Draft proposing to:



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- (a) replace the current definition of NFP entity based on the definition of public benefit entity in New Zealand; and
- (b) provide guidance to assist an entity that prepares general purpose financial statements to determine whether it is a for-profit entity or an NFP entity for the purpose of applying the accounting standards.

The ED will propose including the definition and guidance in AASB 1057 *Application of Australian Accounting Standards* and permitting early adoption. The ED will be open for a 90-day comment period. The ED addresses issues raised in submissions in previous consultations and is important given the proposals at this stage for for-profit entities.

### AASB Approach to IPSASB Standards

The Board decided to amend the draft policy document set out in Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* to address the following:

- (a) clarify the process for the Board to consider when to begin a formal consultation on adopting International Public Sector Accounting Standards (IPSAS);
- (b) the factors to be considered by the Board should include whether IPSAS have addressed the latest principal versions of IFRS Standards and the effect of IPSAS on stewardship and accountability frameworks in the public sector;
- (c) it is not essential for IPSAS to include a reduced disclosure regime as the Board would be able to develop its own regime if appropriate;
- (d) the Board would consider the broader impact on the Australian economy of adopting IPSAS and not only the impact on the public sector;
- (e) the lack of an interpretation structure and interpretative materials should be added as an additional cost of adopting IPSAS;
- (f) the Board's report on the differences between IPSAS and Australian Accounting Standards would be updated periodically to provide input into the Board's assessment; and
- (g) the Board's assessment criteria and conclusions would be published when the Board makes an assessment of adopting IPSAS.

The updated policy will be submitted to the Financial Reporting Council for approval. The Board plans to undertake an assessment in accordance with the approved policy and release its assessment criteria and conclusions for public comment.



## **Financial Statements of Non-Disclosing Entities Lodging with ASIC**

The Board discussed initial findings from a research project addressing the reporting practices of for-profit non-disclosing entities lodging Special Purpose Financial Statements (SPFS) with ASIC. In particular, the Board noted that there are 12,800 large proprietary companies, small foreign-controlled proprietary companies and unlisted public companies lodging financial statements with ASIC as at 30 July 2018, out of a total population of 800,000 trading companies. Of these 12,800 companies, 55% are preparing SPFS in the period 2016-2018, compared with 66% for the period 2009-2011. The number of entities lodging financial statements with ASIC would reduce further if the Government's proposals to double the size thresholds for identifying large proprietary companies are implemented.

The Board also discussed challenges users of financial statements currently face when determining whether entities are compliant with the recognition and measurement requirements of AAS. The Board will consider whether entities should be required to include a statement of compliance with recognition and measurement requirements of Australian Accounting Standards in their financial statements as a priority, independently of the financial reporting framework proposals.

The research will be addressed further at the next Board meeting.

## **Goodwill and Impairment**

The Board discussed issues arising from research considering analysts' perspectives on impairment and methods that they adopt to identify impairment on a timely basis as well as additional financial statement disclosures that could be useful to users.

The Board decided to make recommendations to the IASB in relation to the following:

- (a) clarifying the purpose of the impairment test;
- (b) conducting further research on developing a modified single model approach, rather than permitting either the Value in Use or the Fair Value less Costs of Disposal models;
- (c) exploring aligning impairment testing with the level at which an entity's results are viewed and decisions are made internally (ie reconsidering the need for cash-generating units as the aggregation level); and
- (d) enhanced disclosure requirements for acquisitions and impairments.

The Board also decided to publish the research.

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### Australian Financial Reporting Framework – Approach to NFP Entities

The Board noted that State and Territory consumer protection agencies are supportive of working with the Board and other not-for-profit (NFP) regulators on the issue of simplifying financial reporting in the NFP private sector.

### Management Commentary

The Board noted the importance of the IASB's Management Commentary project to Australia, to improve the information provided in entities' operating and financial review (OFR). The Board noted the Banking Royal Commission's emphasis on regulators enforcing legislation, the non-mandatory status of ASIC Regulatory Guide RG247, mandatory audited management commentary requirements in the UK and Germany, and the relationship between the IASB's project and other external reporting frameworks such as that of the International Integrated Reporting Council.

### International Documents Open for Comment

The Board decided not to comment on the following international consultation documents:

- (a) the IASB Exposure Draft addressing costs considered in assessing whether a contract is onerous; and
- (b) the IPSASB Exposure Draft addressing collective and individual services and emergency relief.

The Board agreed to reconsider making submissions should any significant domestic issues be raised during the respective comment periods.

### Recently Approved Documents

Since last reported (14 November 2018), the Board has approved the following Standards, Exposure Drafts or other documents.

Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
23 November 2018	Exposure Draft ED 286 <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i>	7 December 2018
18 December 2018	AASB 2018-6 <i>Amendments to Australian Accounting Standards – Definition of a Business</i>	1 January 2020
18 December 2018	AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	1 January 2020



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Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
24 December 2018	AASB 2018-8 <i>Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities</i>	1 January 2019
8 January 2019	Exposure Draft ED 287 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	22 March 2019
22 January 2019	Fatal-Flaw Review Draft Standard AASB 2019-X <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>	22 March 2019

### Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, the IFRS Interpretations Committee, the IFRS Foundation or the IPSASB are published on the AASB website.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Exposure Draft ED/2018/2 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	ED 287	22 March 2019	15 April 2019
AASB	Fatal-Flaw Review Draft Standard AASB 2019-X <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i>	–	22 March 2019	–
IPSASB	Exposure Draft ED67 <i>Collective and Individual Services and Emergency Relief</i>	–	–	31 May 2019

AASB 2019 Scheduled Board Meeting Dates	May 2019 AASB meeting
	At the next Board meeting, it is expected the Board will address the following items:
1 May 2019	Conceptual Framework – FP – Phase 2
14 June 2019	AASB 1059 – transition issues
17 – 18 September 2019	Revised Tier 2 GPFS – <i>IFRS for SMEs</i> disclosures
12 – 13 November 2019	Research Report – ASIC-regulated entities