



Project:	Conceptual Framework for Financial Reporting	Meeting	AASB 14 June 2019 (M171)
Topic:	Removal of SPFS for FP entities – Phase 2 ED	Agenda Item:	4.0
		Date of Agenda Paper:	30 May 2019
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		Decision-Making:	High
		Project Status:	Pre-ballot draft of Exposure Draft (ED)

Introduction and objective of the meeting

- 1 The objective of this agenda item is for the Board to:
 - (a) **decide** whether the amendments in the pre-ballot ED relating to the removal of SPFS for for-profit private sector entities that are required to comply with Australian Accounting Standards (AAS) (or accounting standards per legislation) appropriately reflects the Board's decisions relating to:
 - (i) removing the reporting entity concept and special purpose financial statements (SPFS) for for-profit private sector entities;
 - (ii) an exemption for trusts and other entities with only a non-legislative requirement to comply with standards; and
 - (iii) transitional relief from restating and presenting comparative information;
 - (b) **confirm** that the draft Basis for Conclusions appropriately reflects the Board's deliberations; and
 - (c) **decide** on the next steps and timeline.

Reasons for bringing this paper to the Board

- 2 In its meetings in February and April 2019, the Board has made almost all of the necessary decisions to proceed with the issuance of an ED proposing to remove the ability for for-profit private sector entities that are required to comply with AAS to prepare SPFS, and bring the IASB's revised *Conceptual Framework for Financial Reporting* into effect for those entities. As such, the Board at its April 2019 meeting directed staff to proceed with drafting a pre-ballot ED for consideration at this meeting. To proceed with the issuance of the ED, the Board needs to make some final decisions, as outlined in Agenda Paper 4.1.

Attachments

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| Agenda Item 4.1 | <i>Exposure Draft ED XXX Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements under Standards for For-Profit Entities</i> |
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Overview of Exposure Draft

- 3 This pre-Ballot ED proposes the matters set out in paragraph 1(a) and 1(b) above. As decided by the Board in April 2019, there will be a separate ED proposing the replacement of the current Tier 2: Reduced Disclosure Requirements framework (see Agenda Item 3).
- 4 Given the technical complexities of the amendments referred to in paragraph 1(a) above, Appendix A to this cover memo provides a summary for Board members of the key mechanics of the amendments to remove the ability for entities to prepare SPFS in accordance with AAS. Staff have not provided such summaries for the transitional relief, or Basis for Conclusions.
- 5 Some areas of the ED are highlighted – this signifies where information or references may need to be updated, for example when referring to other EDs not yet issued, or when referring to findings of as yet unpublished research.

Questions to the Board

- 6 Staff have included a number of specific questions (and other commentary) for the Board as comments in the pre-ballot ED (Agenda Paper 4.1). Staff have generally drafted the amendments and Basis for Conclusions based on the staff recommendations for any outstanding questions, and therefore some matters in the pre-ballot draft would be subject to change if the Board disagrees.
- 7 As such, there are no questions to the Board in this cover memo, except for the questions related to the timeline (below).

Next steps, timeline and communications

- 8 The Staff timeline for this project, as presented in Agenda Paper 5.1 of the April 2019 meeting, had expected that the pre-ballot draft ED would be presented to the Board at its September 2019 (rather than this June 2019 meeting). Therefore, staff consider that, subject to Board member feedback on the pre-ballot draft at this meeting, the timeline for the issuance of the ED could be brought forward.
- 9 Staff have set out a revised timeline below, prepared on the assumption that the Board's feedback at this meeting would not require major redrafting of the ED, or if needed, circulation of the ED for voting would be done out of session.

Revised Timeline for the Removal of SPFS for For-Profit Entities

June-July 2019

Pre-Ballot Draft ED

- Board provide comments on pre-ballot draft [THIS MEETING]

Staff process comments and changes to ED

- Extent of changes subject to Board comments at this meeting

Send Ballot Draft ED to Board for out-of-session voting

- Out-of-session voting
- May need to repeat this step if Board requires further revisions from ballot draft – would delay process approx. 3 weeks.

Aug 2019

Issue ED: Removal of SPFS ED (120 day comment period)

- Both EDs would be issued at a similar time (but not necessarily the same)

Issue ED: Revised Tier 2 framework (120 day comment period)

Communications launch (directly following issue)

- Website communications launch
- ITC 39 Feedback Statement
- Roundtables, webinar invitations issued
- Targeted stakeholder notifications
- Social media notifications

Targeted outreach begins

- Identify key stakeholders for 1:1 briefings and engagement involving Chair and/or Staff

Sept-Nov 2019

Roundtables and webinar

- To be held in major capital cities
- Joint outreach for both Removal of SPFS and revised Tier 2

Continuing targeted outreach

- Continuing outreach with stakeholders that may have been busy during the 'busy season'

Dec 2019

Receive comment letters and summary of outreach

Q1 – Q2 2020

Redeliberations

- Summary of comments expected in first meeting of 2020
- Final Standard issued before 30 June 2020

QUESTION 1 TO THE BOARD:

The Board tentatively decided for the comment period to be 90 days for the SPFS removal ED. However, if issued in early-mid August 2019, as part of the comment period would coincide with the 'busy period' for many stakeholders.

Therefore, staff recommend revising the comment period to 120 days, which would have the comment period closing approx. mid December.

Does the Board agree to a 120 day comment period, if the ED is issued in August 2019?

QUESTION 2 TO THE BOARD:

Do Board members have any comments on the revised timeline?

Appendix A – Summary of consequential amendments to remove SPFS

Given the technical complexities of the amendments, this appendix provides a summary of the key mechanics of the amendments to remove the ability for entities to prepare SPFS in accordance with Australian Accounting Standards (AAS). Staff have not provided such summaries for the transitional relief or Basis for Conclusions.

The applicability of the *Conceptual Framework for Financial Reporting* (RCF) is proposed to be extended so that it applies to:

- (a) for profit-private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards (with the previous limitation to entities with public accountability removed);
- (b) other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards (and so excluding requirements to comply merely with ‘accounting standards’), provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (including for-profit public sector entities) that elect to apply the *Conceptual Framework* and the consequential amendments to other pronouncements.

The *Framework for the Preparation and Presentation of Financial Statements* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* are also proposed to be amended so that they will continue not to apply to all for-profit entities that are applying the *Conceptual Framework*. Consequential amendments are made to the applicability of the reporting entity definition in AASB 1057 *Application of Australian Accounting Standards*, which is not relevant to entities applying the *Conceptual Framework*.

Therefore, with these amendments, an entity that is required to apply the *Conceptual Framework* cannot identify as a non-reporting entity under SAC 1 or AASB 1057. As a consequence, the ability for such an entity to prepare special purpose financial statements is removed and it will be required to prepare general purpose financial statements that comply with Australian Accounting Standards (or accounting standards under legislative requirements).

The application paragraph of AASB 1057 is proposed to be extended to state that it will apply to for-profit private sector entities that are required by legislation to comply with Australian Accounting Standards or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards (provided that the relevant document was created or amended on or after 1 July 2020). The application paragraphs of the other Standards and Interpretations, as set out in AASB 1057, are extended similarly.

The AusCF paragraphs in AAS that were introduced in AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* do not need to be amended in this ED. The definition of AusCF entities as not-for-profit entities and for-profit entities that are not applying the *Conceptual Framework* as introduced in AASB 2019-1 will continue to apply unchanged. The phase 2 amendments reduce the set of for-profit entities that are not applying the *Conceptual Framework*.