



Project:	Conceptual Framework for Financial Reporting	Meeting:	M168
Topic:	Phase 1 – Revised Conceptual Framework and Consequential Amendments	Agenda Item:	5.1
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		Decision-Making:	High
		Project Status:	Consider the <i>Conceptual Framework for Financial Reporting</i> and AASB 2018-X consequential amendments, subject to the outcomes of agenda item 4

Objective of this paper

1. The objective of this paper is for the Board to consider:
 - (a) the Australian equivalent of the IASB's revised *Conceptual Framework for Financial Reporting* (RCF); and
 - (b) the consequential amendments proposed in AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (AASB 2018-X),subject to the outcomes of matters discussed in Agenda Paper 4.1, in order to implement the Phase 1 amendments.

Reasons for the Board to consider this paper

2. Subject to the outcomes of the discussion based on Agenda Paper 4.1, the Board needs to consider, and if deemed appropriate vote on, the RCF and AASB 2018-X, so that the Phase 1 amendments can be finalised before the IASB's revised RCF becomes operative on 1 January 2020.

Attachments

- 5.2 Pre-ballot draft – *Conceptual Framework for Financial Reporting*
- 5.3 Pre-ballot draft – AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework*

Background

3. [ITC 39 Consultation Paper Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems \(ITC 39\)](#) proposes to implement the IASB's RCF in Australia via a phased approach. Phase 1 of the project will implement the RCF for publicly accountable for-profit private sector entities in order for them to maintain IFRS compliance, and for-profit entities voluntarily adopting the RCF. Phase 2 of the project will implement the RCF for all other for-profit entities.

4. The IASB's RCF becomes operative from 1 January 2020 and the Phase 1 amendments need to be in place by that time.
5. The Board discussed initial feedback and how to facilitate the two-phase approach at the September 2018 meeting.
6. With respect to Phase 1, the Board decided to operate with two conceptual frameworks until the conceptual framework project is completed, and have one set of Australian Accounting Standards, including Interpretations (AAS).
7. The Board further decided that the Phase 2 proposals in ITC 39 will apply only to for-profit entities, as the Board will consult separately on how the RCF should be implemented for not-for-profit entities.

Summary of Staff recommendations

8. Staff have considered the views of respondents to Phase 1 of ITC 39, and subject to the Board's decisions in respect of Agenda Paper 4.1, Staff recommend:
 - (a) The proposed wording in the RCF (refer Agenda Paper 5.2). Refer to Key Matter 1 – Nature of amendments to IASB's RCF in the attached Appendix for Staff analysis.
 - (b) The proposed wording in AASB 2018-X (refer Agenda Paper 5.3). Refer Key Matter 2 – Nature of consequential amendments (2018-X) for Staff analysis.
 - (c) A fatal flaw draft of the RCF and AASB 2018-X be issued for public comment with a 30 day comment period. Refer Key Matter 3 – issue of a fatal flaw draft for public comment

Questions for Board members

- Q1 Does the Board agree with the proposed wording in the RCF? If not, what changes does the Board propose?
- Q2 Does the Board agree with the proposed wording in AASB 2018-X? If not, what changes does the Board propose?
- Q3 Does the Board agree with Staff's recommendation that the RCF and AASB 2018-X should be issued as a fatal flaw draft for public comment with a 30 day comment period? If not, does the Board propose:
 - (a) A different comment period;
 - (b) Changes to the proposed wording in either the RCF, AASB 2018-X or both; or
 - (c) To vote on issuing the RCF and AASB 2018-X as final pronouncements?

Timeline to implement Phase 1

9. To have the Phase 1 proposals in place by 1 January 2020, the following timeline is proposed:

Task	Date
Staff to draft Basis for Conclusions for AASB 2018-X.	2 November – 7 December
Staff to present Agenda Item 5.1 (pre-ballot draft of the RCF and AASB 2018-X).	13 November
Staff to circulate ballot draft of the fatal flaw draft of the RCF and AASB 2018-X (including the Basis for Conclusions) to the Board out of session with a two-week voting period.	21 December
If necessary, Staff to update the RCF and AASB 2018-X for comments received from Board.	8 January
Issue fatal flaw draft of the RCF and AASB 2018-X for public comment with a 30 day comment period.	10 January
Staff to conduct targeted outreach.	14 January – 28 January

Task	Date
Staff to collate fatal flaw draft submissions and prepare a Staff paper summarising any matters raised. If necessary, Staff to update the RCF and AASB 2018-X.	11 February – 4 March
Issue ballot draft of the RCF and AASB 2018-X to the Board out of session with a two week voting period.	5 March
Staff receive Board votes.	18 March
Issue RCF (without NFP amendments) and AASB 2018-X.	4 April

Question for Board members

Q5 Does the Board have any comments on the proposed timeline to implement Phase 1?

Appendix

Key Matter 1 – Nature of amendments to IASB’s RCF

10. In preparing the RCF for issue in Australia, Staff reviewed the IASB’s RCF and made the following amendments:
 - (a) Application paragraphs Aus1.1 – Aus1.5 were added. These paragraphs are consistent with those included in the *Framework for the Preparation and Presentation of Financial Statements* (CF); and
 - (b) References and terminology were replaced with Australian equivalent terms where appropriate. For example the IASB and the IFRS Foundation were replaced with AASB.
11. Staff also ensured that in all other respects the proposed RCF and the IASB’s RCF are the same.

Key Matter 2 – Nature of consequential amendments (2018-X)

Amendments proposed for Phase 1 in Appendix A of ITC 39

12. Appendix A of ITC 39 outlined proposed amendments to pronouncements resulting from Phase 1. In most cases, the amendments proposed in Appendix A of ITC 39 are included in AASB 2018-X, however some exceptions are noted below:
 - (a) The proposed deletion of the application paragraphs of AASB 9 *Financial Instruments*, AASB 14 *Regulatory Deferral Accounts*, AASB 1054 *Australian Additional Disclosures*, AASB 1055 *Budgetary Reporting*, Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and Interpretation 1052 *Tax Consolidation Accounting* were not included in ITC 39. AASB 2018-X proposes to delete those paragraphs, as their application to entities and financial statements is set out in AASB 1057 *Application of Australian Accounting Standards*. As a result no AusCF paragraphs are required for AASB 1054, AASB 1055, Interpretation 1038 and Interpretation 1052;
 - (b) The amendments proposed to AASB 1048 *Interpretation of Standards* to update all CF references to be read as a reference to the RCF are not included. Refer matter RC2 below.
 - (c) The application amendments proposed in Appendix A of ITC 39 to Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 1057 *Application of Australian Accounting Standards* (subject to the Board’s agreement with Staff recommendations in Agenda Paper 4.1) are amended as follows:

“for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards.”

Refer matter Key Issue 2 in Agenda Paper 4.1 and RC3 below.

Matters raised as part of the ITC 39 Phase 1 submissions (carried forward from Agenda Paper 4.1)

13. A number of matters were raised by respondents to Phase 1 of ITC 39 relating to the drafting of the proposed Phase 1 amendments. These matters are summarised below along with Staff recommendations regarding how they should be addressed.

RC1 Application of both frameworks needs to be sufficiently clear

14. The Australasian Council of Auditor Generals (ACAG) raised that application of both the CF and RCF needs to be sufficiently clear (i.e. which entity applies which framework). The AASB needs to clearly communicate that having two frameworks could lead to inconsistent accounting policies.

Staff analysis and recommendation

15. The application of both the CF and the RCF will be addressed via application paragraphs in both the CF and RCF. An AusCF1 paragraph will also be included in most AAS.

16. One version of paragraph AusCF1 outlines that the requirements of AusCF paragraphs and footnotes apply only to those entities that are not applying the RCF. It will also direct entities applying the CF to AASB 1053 and SAC 1 for the definition of the term 'reporting entity'.
17. A second version of paragraph AusCF1 is used where no AusCF paragraphs were added to an AAS. This version merely directs entities applying the CF to AASB 1053 and SAC 1 for the definition of the term 'reporting entity'.
18. Staff recommend the following wording:

a) Framework for the Preparation and Presentation of Financial Statements

- Aus1.2A This *Framework* does not apply in relation to reporting periods beginning on or after 1 January 2020 to:
- (a) for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards; and
 - (b) other for-profit entities that elect to apply the *Conceptual Framework for Financial Reporting* and the consequential amendments to other pronouncements set out in AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework*.
- Aus1.2B If an entity identified in paragraph Aus1.2A applies the *Conceptual Framework for Financial Reporting* to an annual reporting period beginning before 1 January 2020, the entity shall not apply this *Framework* to that period.

b) Conceptual Framework for Financial Reporting

- Aus1.2 This *Conceptual Framework* applies to:
- (a) for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards; and
 - (b) other for-profit entities that elect to apply the *Conceptual Framework* and the consequential amendments to other pronouncements set out in Accounting Standard AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework*.
- Aus1.3 This *Conceptual Framework* applies to periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2018-X.

c) Paragraph AusCF1

- AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:
- (a) not-for-profit entities; and
 - (b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting*.
- Such entities are referred to as 'AusCF entities'. AusCF entities shall not apply the corresponding non-AusCF paragraphs and footnotes. For AusCF entities, the term 'reporting entity' is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For-profit entities applying the *Conceptual Framework for Financial Reporting* shall not apply AusCF paragraphs or footnotes.

or

- AusCF1 AusCF entities are:
- (a) not-for-profit entities; and
 - (b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting*.
- For AusCF entities, the term 'reporting entity' is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies.

RC2 Fatal flaw and AASB 1048

19. The Australian Banking Association (ABA) identified a fatal flaw in the proposed amendments in Appendix A of ITC 39. Using AASB 1048 to update all references to the CF to be read as a reference to the RCF for entities to whom the RCF applies, could replace references which were retained by the IASB (e.g. the CF reference in paragraph 11 of AASB 3).

Staff analysis and recommendation

20. When ITC 39 was drafted it was intended that AASB 1048 would be used to update CF references to be read as a reference to the RCF in certain cases. Subsequent to this and as part of recommending option 1 to the Board at the September Board meeting, Staff determined it was more appropriate to update CF references to RCF references in each effected AAS so that the basic text of all AAS would remain IFRS compliant, that is, it would be word for word the same as IFRS.
21. The amendments proposed by Staff in AASB 2018-X have three key characteristics:
- (a) IASB consequential amendments – they update CF references to RCF references in an IFRS equivalent AAS and are consistent with the IASB’s consequential amendments;
 - (b) AASB consequential amendments – they update CF references to RCF references in a domestic AAS and insert paragraph AusCF1 to address the reporting entity clash; and
 - (c) Retained CF references – CF references are not updated and a new footnote is either added or an existing footnote is amended to ‘freeze’ the CF. These amendments may be consistent with the IASB consequential amendments (paragraphs 23 to 26) or may occur in a domestic AAS (paragraph 30).

IASB consequential amendments

22. The RCF is accompanied by a three part amending standard which updates references to the IASB’s previous framework in IFRS pronouncements. Part A amends IFRS Standards, Part B amends non-integral illustrative examples, guidance and practice statements and Part C amends bases for conclusions. Part A is incorporated into AASB 2018-X and Parts B and C will be available to constituents on the AASB website.
23. In most cases, the CF references in standards are updated to refer to the RCF, however in the case of IFRS 3 *Business Combinations* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (in relation to developing accounting policies for regulatory account balances) the IASB has not updated these references at this time. In those instances the CF continues to apply.
24. The IFRS 3 reference is not updated as to do so would change which assets and liabilities would qualify for recognition in a business combination which may give rise to unintended consequences. For example, the IASB identified that the recognition of certain liabilities may give rise to Day 2 gains or losses whereby a levy may be recognised as part of acquisition accounting and then immediately derecognised on Day 2.¹
25. The IAS 8 reference is not updated as to do so would result in two changes to accounting policies for regulatory account balances, the first being when the RCF is issued and the second when a revised standard on rate-regulated activities is issued.²
26. The IASB will consider the impact of the revised definitions of assets and liabilities as it revises standards. Therefore, some standards will continue to refer to the previous definitions. For example IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (paragraph 10) will continue to use an earlier definition of a liability and IAS 38 *Intangible Assets* (paragraph 8) will continue to use an earlier definition of an asset.
27. As agreed by the Board at its September meeting, Part A of the IASB’s consequential amendments are incorporated into AASB 2018-X by updating the existing requirements within each effected pronouncement. Where an AAS is amended as a result of the RCF, the existing paragraphs will be retained in the amended AAS via an AusCF paragraph that will apply only to

¹ <https://www.ifrs.org/-/media/feature/meetings/2018/october/asaf/ap2-ifrs-3-conceptual-framework.pdf>

² <https://www.ifrs.org/-/media/feature/meetings/2017/march/iasb/conceptual-framework/ap10b-cf.pdf>

for-profit entities that do not have public accountability and whom are not required by legislation to comply with AAS and who haven't voluntarily adopted the RCF.

AASB consequential amendments

28. As agreed by the Board at its September meeting, to address the reporting entity clash, paragraph AusCF1 will be inserted into each AAS that contains the term reporting entity. The proposed wording of paragraph AusCF1 is outlined in paragraph 18(c) above. Staff identified all instances of the term reporting entity and have proposed an amendment to each effected AAS to insert paragraph AusCF1.
29. Staff identified all CF references in all domestic pronouncements and intended to update all CF references to be RCF references in Phase 1 for publicly accountable for-profit entities that are required by legislation to comply with Australian Accounting Standards, unless there was a compelling reason not to do so.
30. Staff identified a number of CF references which Staff consider should not be updated:
 - (a) The CF reference is in an AAS that will be superseded before the RCF becomes mandatory (e.g. AASB 118, which is superseded by AASB 15);
 - (b) The CF reference occurs in the Basis for Conclusions of a domestic AAS, since Bases for Conclusions are not typically updated as they are statements made at a point in time;
 - (c) The CF reference includes the definition of an asset, liability, income or expense in its requirements and therefore updating the reference may potentially change the requirements of the AAS. In these cases, the AAS will continue to refer to the CF for the relevant definition;
 - (d) The CF reference in paragraph 1 of AASB 1048. Both CF and RCF references are required in order to deal with them as 'external documents' referred to in an AAS, as AASB 1048 acts as a service standard.
 - (e) Three CF references (one in AASB 1059 and two in Practice Statement 2) were not updated as they include requirements specific to not-for-profit entities. While not-for-profit amendments will be made to the RCF in due course, they have not yet been considered as the adoption of the RCF in Phase 1 is limited to for-profit entities.

RC3 Fatal flaw and SAC 1

31. The ABA identified a fatal flaw in that SAC 1 is the only legal pronouncement that affects whether entities prepare GPFS. Entities that use SAC 1 to deem themselves as non-reporting entities can validly argue out of any other AAS GPFS requirement.

Staff analysis and recommendation

32. When addressing Phase 1 of ITC 39, Staff became aware of entities that may otherwise be required to prepare Tier 1 GPFS (i.e. securitisation trusts and registered managed investment schemes), that are currently preparing SPFS to satisfy their financial reporting requirements. This is because they have self-assessed as non-reporting entities under SAC 1 on the basis there are no external users of their financial statements. Even though these entities are required to comply with AASB 1053, they have not applied the tiering paragraphs of AASB 1053 (paragraphs 11-13) on the basis that those paragraphs apply only to GPFS.
33. To address this, as drafted in AASB 2018-X, Staff recommend amending paragraph 11 of AASB 1053 to state:

The following types of entities shall prepare general purpose financial statements that comply with Tier 1 reporting requirements:

 - (a) *for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards; and*
 - (b) *the Australian Government and State, Territory and Local Governments.*
34. Staff also recommend including the following wording in the Preface to AASB 2018-X (as drafted) and also in the Basis for Conclusions to AASB 2018-X:

"If an entity is required to apply the Conceptual Framework for Financial Reporting, it cannot identify as a non-reporting entity in accordance with Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity. It will therefore need to prepare General Purpose Financial Statements".

RC4 Amendments proposed to AASB 133

35. EY noted that it is not clear why the amendment made to the scope of AASB 133 *Earnings per Share* (via amendments to AASB 1057 required a reference to the *Corporations Act 2001* (rather than AAS as is included for other amendments), when the additional scope requirements in AASB 133 paragraph 2 already limit the standard's application to certain entities.

Staff analysis and recommendation

36. Historically, the application of AASB 133 was deliberately limited to companies that report in accordance with the *Corporations Act 2001* and other entities that voluntarily disclose earnings per share. The drafting of the proposed amendment in paragraph 9 of AASB 1057 was drafted with the same intention so as not to inadvertently extend the application of AASB 133 to other entities.

RC5 Amendments proposed to AASB 10

37. EY noted that the proposed Phase 1 amendments do not propose an amendment to AASB 10.Aus4.2³. With the amendments to other AAS and the limitations on the application of SAC 1, this paragraph will confuse entities with public accountability, because 'reporting entity' in this paragraph is in the context of SAC 1 (which will no longer exist for these entities). As such it is not clear whether consolidated financial statements continue to be required by the ultimate Australian parent (irrespective of any foreign parent IFRS compliant financial statements).

Staff analysis and recommendation

38. To address this, Staff recommend AusCFAus4.2 is added and Aus4.2 is amended. Paragraph Aus4.2 would be applied by for-profit private sector entities with public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that elect to apply the RCF. Paragraph AusCFAus4.2 would be applied by all other entities. New text is underlined and deleted text is struck through.

Aus4.2 Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when ~~either the parent or the group is a reporting entity or both the parent and the group are reporting entities~~ the parent has public accountability and is required by legislation to prepare consolidated financial statements, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

AusCFAus4.2 Notwithstanding paragraphs 4(a), Aus4.1 and Aus4.2, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

39. Staff recommend that a separate project that considers when the ultimate Australian parent should be required to prepare consolidated financial statements be undertaken.

Key Matter 3 – issue of a fatal flaw draft for public comment

40. Of the 22 submissions received, six respondents stated that they believe the Phase 1 proposals were of such significance that the Board must issue an Exposure Draft, while 1 respondent stated that no exposure draft was required. The remaining 15 respondents did not provide a specific comment.
41. Appendix A paragraph 2 in ITC 39 stated:

³ Paragraph Aus4.2 of AASB 10 states "Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss."

“If the short-term approach is approved by the AASB after consideration of stakeholder views, including responses to the proposed amendments detailed in this Appendix, the AASB does not intend to issue an Exposure Draft with respect to the short-term approach or these proposed amendments.”

42. As discussed in Agenda Paper 4.1, Staff reviewed all Phase 1 submissions and noted that on balance, the majority of the submissions were supportive of the proposals in Phase 1. Agenda Paper 4.1 identified four key issues which were raised in the submissions, however Staff’s view is that none of these issues should prevent the Board from proceeding with Phase 1 of ITC 39. Accordingly Staff recommended that the Board proceed with Phase 1 of ITC 39.
43. On this basis it is Staff’s view that it is not necessary to issue an Exposure Draft, and instead Staff recommend that a fatal flaw draft of the RCF and AASB 2018-X be issued for public comment with a 30 day comment period.
44. The non-mandatory aspects of AASB 2018-X, including the Preface and the Basis for Conclusions have not yet been finalised and have therefore not been provided to the Board at this time. Once finalised, they will be provided to the Board out of session for comment and subsequent voting.