



Project:	Minimum disclosures for For-Profit SPFS referring to Australian Accounting Standards	Meeting	AASB November 2020 (M178)
Topic:	Analysis of submissions to ED 302 and staff recommendations	Agenda Item:	7.1
		Date:	28 October 2020
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		Decision-Making:	High
		Project Status:	Consider feedback on ED and next steps

Objective of this paper

- 1 The objective of this agenda item is:
 - (a) to **inform** the Board of the feedback to date on ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* and provide staff analyses of pertinent issues; and
 - (b) for the Board to **decide** and **provide feedback** on the staff recommendations.

Attachments

- Agenda Paper 7.2 Submissions: ED 302 [\[supporting documents folder\]](#)
- Agenda Paper 7.3 For noting: ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* [\[supporting documents folder\]](#)

Structure

- 2 This paper is structured as follows:
 - (a) [Navigating this paper](#)
 - (b) [Background](#)
 - (c) [List of respondents to ED 302 and other outreach](#)
 - (d) [Other Outreach](#)
 - (e) [Summary of issues, staff recommendations, and questions to the Board](#)
 - (i) [Key issues \(Table 1\)](#)

- (ii) Other significant issues (Table 2)
- (iii) Less significant issues (Table 3)
- (f) Next steps
- (g) Appendix A: Summary of written responses to each SMC/GMC (for reference if needed)
- (h) Appendix B: Concerns outside the scope of ED 302 (for reference if needed)
- (i) Appendix C: Webinar polling results

Navigating this paper

- 3 Staff have summarised all the analysis and recommendations in Tables 1-3 of this paper for the convenience of Board members, to help reduce the need to read all the details in Appendices A and B. Those Appendices are included as a reference resource that provides more detailed context of the submissions, staff analysis and staff recommendations in case that is required during Board discussions.
- 4 To assist in navigating, two-way links between the summary of issues outlined in Tables 1-3 and the relevant specific and general matters for comment (SMCs/GMCs) in Appendix A have been provided. This explains the length of this paper – because if we had not provided links, Appendix A could have been provided as a separate agenda paper.
- 5 Consequently, this paper is structured in a way to be efficiently read using a device by either using the two-way links or viewing the different parts of the paper on a split screen. Staff plan to structure the Board discussion around Tables 1-3 and thereby work sequentially through the body of the paper.

Background

- 6 In March 2020 the Board approved the issue of [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#), which removed the ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS). Certain for-profit private sector entities (e.g. trusts) are exempt from the scope of AASB 2020-2 where they are required only by their constituting document or another document (i.e. non-legislative requirements) to comply with Australian Accounting Standards (AAS), provided that document is created or amended on or after 1 July 2021.
- 7 Given the effective date of AASB 2020-2 was deferred to 1 July 2021 and given the exemption for some entities from applying AASB 2020-2 noted in paragraph 6 directly above, there is likely to be a number of entities that will continue to be able to prepare SPFS that will refer to compliance with AAS either:
 - (a) temporarily (e.g. large proprietary companies adopting AASB 2020-2 at its mandatory effective date); or
 - (b) long term – entities using the AASB 2020-2 exemption.

Therefore, the Board decided when issuing AASB 2020-2 these entities should be required to disclose information about the entity's compliance, or otherwise, with the requirements in AASB 10 *Consolidated Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures* and the recognition & measurement (R&M) requirements in other AAS.

- 8 Disclosures regarding an entity's compliance or otherwise with R&M requirements in SPFS was previously considered in [ED 293 Amendments to Australian Accounting Standards –](#)

Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements. When issued, the proposals in ED 293 were intended to be an interim measure aimed at providing some measure of transparency to users until resolution of the ‘SPFS problem’ for both for-profit private sector entities and not-for-profit (NFP) entities.

- 9 The scope proposed in ED 293 was those for-profit and NFP entities required by legislation to comply with AASB 1054 *Australian Additional Disclosures* (i.e. for-profit and NFP entities reporting under the Corporations Act 2001 and medium and large charities registered with the Australian Charities and Not-for-profits Commission (ACNC) required to comply with ACNC’s reporting requirements relating to SPFS).¹ After considering feedback from respondents on ED 293, the Board decided to limit the proposals in ED 293 to NFP private sector entities. This is because respondents “were particularly concerned about the costs of the ED 293 proposals exceeding any benefits for for-profit private sector entities given the ED 293 proposals were intended to be only a short-term measure for these entities” (paragraphs BC43-44 of AASB 2019-4). When making this decision the effective date of AASB 2020-2 was expected to be one year earlier, that is, 1 July 2020. The proposals in ED 293 were finalised in November 2019, through [AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements](#), with an operative date of 30 June 2020.
- 10 In light of the effective date of AASB 2020-2 being one year later than initially proposed, and the exemption for certain for-profit entities, the Board decided to reconsider requiring disclosures regarding an entity’s compliance with R&M requirements in AAS in the SPFS in the for-profit sector.
- 11 At the April 2020 Board meeting the Board confirmed its proposals to amend AASB 1054 to require certain for-profit private sector entities that prepare SPFS to disclose information about the accounting policies applied in those SPFS along with information about the extent of compliance or otherwise with the R&M requirements in AAS. ED 302 was then issued in June 2020 with a 90-day comment period ending on 11 September, and received 12 written submissions, which are analysed below.

List of respondents to ED 302

Category	Respondent	Submission no.
7 Profession Services (PS)	PwC Australia	PS1-PwC
	Pitcher Partners	PS2-PP
	KPMG	PS3-KPMG
	Nexia Australia	PS4-Nexia
	Ernest & Young	PS7-EY
	Grant Thornton	PS9-GT
	Financial Reporting Specialists	PS10-FRS
5 Professional Bodies (PB)	Australian Institute of Company Directors	PB5-AICD

¹ NFP public sector entities were excluded from the scope of ED 293 as the Board has a separate project addressing the public sector financial reporting framework.

	Accounting Professional & Ethical Standards Board	PB6-APESB
	Chartered Accountants Australia & New Zealand/CPA Australia	PB8-CA/CPA
	Australian Small Business and Family Enterprise Ombudsman	PB11-ASBFEO
	Institute of Public Accounts	PB12-IPA

Other outreach

- 12 An interactive webinar was held by staff on 1 September 2020, with 36 stakeholders attending. Attendees were asked to provide feedback by responding to a number of polling questions and were also given the opportunity to ask questions directly of staff. More detailed information about the webinar including who attended and the results of the polling questions are included in [Appendix C](#) to this paper.

Summary of issues, staff recommendations and questions for the Board

- 13 Tables 1-3 below identify what staff consider to be the issues that have been raised by respondents to ED 302. The most significant is Table 1, which addresses the issues most relevance to the Board’s deliberations. For each key issue, staff have identified options for the Board to consider. Each key issue is cross-referenced to further analysis that is provided in Appendix A of this paper, in case greater detail is needed.
- 14 Despite the interrelationship between the issues, we have presented them in an order we think would best facilitate a structured discussion by the Board.
- 15 Following these key issues, Table 2 outlines other significant issues and improvements suggested by respondents to ED 302, including a summary of staff recommendations to address them. Table 3 then lists the issues that staff regard as less significant in the context of this project and are provided as a matter of record and for the sake of completeness.
- 16 The following summarises the remaining structure of the issues presented.

Significance of issues	Summary of issues/questions for the Board
Key Issues	A – Usefulness: Would the proposals result in useful information? (If no, discontinue the project; if yes, address the next question) (Questions 1-3)
	B – Scope: Which entities should be subject to the proposals? (If none, discontinue the project; if yes, address the next question) (Questions 4-6)
	C – Operative date: Should the proposed operative date be deferred? (Irrespective of the answer, address the next question) (Question 7)
	D – Relief: Should the proposed requirements be made less onerous by providing ‘not assessed’ relief? (Question 8)
Other Significant Issues	Refer to each issue in Table 2 (Questions 9-16)
Less Significant Issues	Refer to each issue in Table 3 , to help identify whether there are any of these issues Board members would like to raise. (Question 17)
Next Steps	Does the Board agree with the suggested next steps ? (Question 18)

Table 1

Key Issue	Board’s previous deliberations	Why it needs to be addressed again now (nature and extent of respondents’ concerns)	Options and staff recommendation, with a brief rationale
<p>Key Issue A: Will ED 302’s proposals result in useful information for users of at least some types of entities’ SPFS that would justify the costs of implementation? (SMC 1 Issue 1/SMC 3 Issue3/GMC 9 Issue 1/GMC 10 Issue 1/GMC 11/GMC 13 Issues 1 & 2)</p> <p>Feedback regarding whether the proposals would result in useful information was mixed, although some themes emerged, as shown below.</p>			
<p>(i). Is there sufficient evidence supporting the proposals?</p> <p>Appendix A SMC 1, Issue 1</p> <p>Three respondents claimed there was insufficient evidence the proposals would increase the usefulness of SPFS.</p> <p>For example, one respondent noted AASB Research Report 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements relies on data that predates the change in proprietary company reporting thresholds and has not provided any current analysis.</p> <p>Two respondents noted they are not aware of research-based evidence that demonstrates the proposed additional</p>	<p>Yes – in the development of ED 302.²</p> <p>As noted in paragraph 5 of AASB Evidence-Informed Standard-Setting Framework, AASB adopts an evidence-informed approach to setting standards as a key enabler of its strategy for 2017-2021.</p> <p>In developing ED 302, the AASB applied this approach, despite Research Report 12’s data being drawn from only entities within the scope of AASB 2020-2. That Report provides evidence pertinent to ED 302 by analogy as there is no basis to expect SPFS within the scope of ED 302 would</p>	<p>A significant number of respondents make the substantive comment that evidence supporting the proposals is either insufficient or outdated.</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Staff undertake additional research; or 2) Proceed with the project without delaying it to obtain further detailed evidence. <p>Staff consider there is sufficient evidence supporting the usefulness (through increased transparency and comparability) of the proposals.</p> <p>Additional research would unduly delay the project. (It would only be justified as part of the ED 302 project if the Board were seeking to impose more onerous proposals than those in ED 302 (such as mandating R&M requirements).)</p> <p>Staff suggest including a brief overview of the empirical evidence supporting the proposals</p>

² Key issue 1 of AASB [Staff Paper: Development of ED 302, discussed by the AASB at its April 2020 \(Meeting_175\)](#)

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
disclosures will assist user understanding of SPFS.	<p>have adopted better disclosure practices.</p> <p>Furthermore, in December 2018, staff undertook outreach to understand users' views as part of improving the Australian Financial Reporting Framework.³</p>		<p>in the basis for conclusions of any final amendments.</p> <p>Accordingly, staff recommend option 2 – proceed with the project (perhaps with a modified scope – see Key Issue B below) without delaying to obtain further detailed evidence.</p> <p>Question 1: Does the Board agree with the staff recommendation on Key Issue A(i)?</p>
<p>(ii). Do the benefits outweigh the costs?</p> <p>Appendix A: GMC 13 Issue 1</p> <p>Six respondents argued costs would outweigh benefits in relation to those entities within the scope of AASB 2020-2, as the requirements would only apply for one year (refer to Key Issue B).</p> <p>Four respondents argued benefits in relation to entities with a non-legislative requirement to comply with AAS do not arise as these entities prepare accounts for specific users, have no external regulator and the financial statements</p>	<p>Yes – BC22 of ED 302.</p> <p>The Board took the view for-profit entities within scope would typically be expected to have access to the resources necessary to make the required assessments and should have an understanding of R&M requirements in AAS as a matter of good governance. Therefore, any additional costs would not be expected to be significant and would be expected to reduce</p>	<p>A significant number of respondents made the substantive comment that costs would exceed benefits, particularly for entities within the scope of AASB 2020-2.</p> <p>Part of the AASB due process is to carry out a cost/benefit analysis before issuing a standard, regardless of whether it is based on an international</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Proceed with the proposals in some form; or 2) Do not proceed with the proposals at all. <p>The feedback received does not bring new information (with the possible exception of COVID-19, which is addressed in Key Issue B below [and discussed in more detail under SMC 2 Issue 1 and SMC 5 Issue 1 of Appendix A) that would cause staff to recommend the Board not proceed with the proposals in some form.</p>

³ [AASB Staff Paper: For-profit User and Preparer Survey Results](#), considered by the Board at its April 2020 Board meeting.

Key Issue	Board’s previous deliberations	Why it needs to be addressed again now (nature and extent of respondents’ concerns)	Options and staff recommendation, with a brief rationale
<p>are not lodged on the public record (refer to Key Issue B).</p> <p>One of these respondents suggested there may be somewhere between 300,000 to 1,000,000 affected entities (possibly more). The annual costs of the disclosures may vary depending on the complexity of the entity and its transactions. If the additional minimum annual costs were between \$300 and \$500 per entity, the overall regulatory impost of the proposals could range from \$90m to \$500m per annum.</p> <p>Three respondents comment affected entities will incur additional audit costs, but do not quantify them.</p> <p>Three respondents raised concerns about COVID-19’s implications for cost-effective implementation of the proposals.</p> <p>Appendix A: GMC 9 Issue 1, GMC 10 issue 1</p> <p>One respondent was concerned about the impact/cost of education for entities and smaller accounting firms that have not had to react to changes to standards previously.</p>	<p>after first time adoption of the proposals.</p> <p>In any event, the Board has previously noted entities with a non-legislative requirement to comply with AAS could exclude themselves from the requirements by amending their constituting documents.</p>	<p>standard. (Refer to paragraph 2.1(f) of the AASB Due Process Framework for Setting Standards)</p>	<p>With respect to concerns about smaller entities and auditors understanding the proposals, staff consider education materials prepared by AASB staff on the final amendments will be important. Staff intend to work with the professional bodies, relevant regulators and interested stakeholders to help ensure the proposals are communicated effectively and any potential effects are known and can be planned for.</p> <p>Staff recommend option 1 – To proceed with the proposals in some form.</p> <p>Question 2: Does the Board agree with the staff recommendation on Key Issue A(ii)?</p>

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
<p>Appendix A: GMC 13 Issue 2</p> <p>One respondent was concerned that entities are in a 'no-win' situation, as it would be costly to either implement proposals or change constituting documents to avoid.</p>			
<p>(iii). Is APES 205 sufficient?</p> <p>Appendix A SMC 3 Issue 3</p> <p>One respondent argued ED 302 does not include research findings that indicate relevant users have found the disclosure requirements under APES 205 <i>Conformity with Accounting Standards</i> insufficient to warrant these disclosures in ED 302.</p> <p>In contrast, another respondent raised concerns with the usefulness of the current iteration of APES 205. It recommended AASB and APESB liaise to update APES 205 in the light of ED 302.</p>	<p>Yes – BC21 of AASB 2019-4.</p> <p>When developing ED 293 (now AASB 2019-4) the Board acknowledged there might be a large number of NFP private sector entities preparing SPFS that have a non-legislative requirement to comply with AAS, and discussed whether it may be possible for APESB to make a similar amendment to APES 205.</p> <p>APESB ultimately decided no changes were to be made to APES 205 (as a consequence of AASB 2019-4).</p>	<p>This is a substantive threshold issue raised by two respondents, albeit with conflicting views.</p> <p>APESB's decision was made in the context of AASB 2019-4, not ED 302.</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Do not proceed with the project, on the basis APES 205 is sufficient; or 2) Proceed with the project, on the basis APES 205 insufficiently covers the proposals in ED 302. <p>Staff are not aware of any new information that would warrant the Board departing from its view for for-profit entities reflected in ED 302.</p> <p>Depending on the outcome of ED 302, staff suggest the AASB write to the APESB informing it of its decision so that APESB can decide whether the AASB's latest decision would have any implications for APESB's standards, including APES 205.</p> <p>Staff recommend option 2 – Proceed with the project.</p>

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			Question 3: Does the Board agree with the staff recommendation on Key Issue A(iii)?

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
<p>Key Issue B. If the answer to Key Issue A is 'yes', what types of entities should be subject to the proposals? (SMC 2 Issues 1,2,4 &6/Appendix B Issue 3)</p> <p>Feedback regarding which entities should be within the scope of ED 302 proposals was mixed, although a number of themes emerged, as indicated in the following.</p>			
<p>(i). Should the scope be narrowed to exclude entities within the scope of AASB 2020-2?</p> <p>Appendix A: SMC 2 Issue 1</p> <p>Six respondents expressed concern about the proposals applying to entities within the scope of AASB 2020-2 because the proposals would:</p> <ul style="list-style-type: none"> only be applicable for one year before AASB 2020-2 becomes operative; be too onerous because the transition to GPFS for financial years commencing 1 July 2021 is a significant undertaking; and the time and resources to include additional disclosures at 30 June 2021, for one year only, would exceed any benefits of the additional disclosure; and be too onerous because the effects of COVID-19 would intensify the implementation burden. 	<p>Yes – in relation to the first two dot points, but not the third re COVID-19. Refer to paragraph BC43 of AASB 2019-4.</p> <p>The Board decided to limit the resulting amendments in AASB 2019-4 to NFP private sector entities because of concerns the costs would exceed any benefits for for-profit private sector entities given the amendments were intended to be only a short-lived measure for these entities.</p>	<p>A significant number of respondents made this substantive comment.</p> <p>The Board decided it would reconsider the application of the requirements in AASB 2019-4 for for-profit private sector entities if the ED 297 proposals were not finalised as proposed (with an effective date of 1 July 2020). Accordingly, the Board decided to include these entities within the scope of ED 302.</p> <p>However, the impact of COVID-19 has had an impact on the work program of the AASB</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> Exclude entities within the scope of AASB 2020-2 from scope of ED 302 proposals; or No changes to the proposals in ED 302 on this issue. <p>Staff's initial reaction is that the disclosures by entities within the scope of AASB 2020-2 would be of benefit to users. Furthermore, in normal circumstances, they should not be too onerous for preparers (as noted in Key Issue A(ii) above).</p> <p>However, staff acknowledge the economic impact of COVID-19 has been significant, is ongoing, and could not have been predicted when issuing ED 302. On that basis, staff can accept the practical arguments that the introduction of new disclosures would add some incremental time to prepare and audit for years-ending 30 June 2020.</p> <p>Staff consider excluding entities within the scope of AASB 2020-2 from the proposals in ED 302 might be a way of providing at least some resource</p>

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		that has led to the proposals in ED 302 having a 'short life' like they would have had under ED 293 on these entities.	relief during the pandemic, whilst having limited effect on users. Staff recommend option 1 – Exclude entities within the scope of AASB 2020-2 from scope of ED 302 proposals. Question 4: Does the Board agree with the staff recommendation on Key Issue b(i)?
<p>(ii). Should the scope be narrowed to exclude entities required by their constituting document to prepare financial statements that comply with AAS?</p> <p>Appendix A: SMC 2, Issue 2</p> <p>Four respondents argued entities preparing SPFS should be excluded from ED 302 proposals to the extent they prepare accounts for specific users (often limited to the owners and those who provide funding [such as banks] who are in a position to demand the information they require), have no external regulator and the financial statements are not lodged on the public record.</p> <p>Appendix A: SMC 2, Issue 4</p>	<p>Yes – in the development of ED 302.⁴</p> <p>It was necessary to address this issue as part of ED 302 because the lack of transparency in the SPFS of these entities despite them stating they have complied with AAS was not contemplated at the time ED 293 was issued.</p>	<p>A significant number of respondents made this substantive comment.</p> <p>These entities were excluded from AASB 2020-2 because they prepare accounts for specific users, have no external regulator and the financial statements are not lodged on the public record. However, it is now known that for the foreseeable future these entities will be able to continue to</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Remove entities with a non-legislative requirement to comply with AAS from scope; 2) Implement a threshold to exclude 'small unsophisticated' such entities from scope; or 3) No changes to the proposals in ED 302 on this issue. <p>Overall, staff do not identify any new arguments from respondents that the Board had not discussed in developing ED 302, and on that basis do not suggest the first option.</p> <p>Staff do not expect the ED 302 proposed disclosures to be onerous (see Key Issue A(ii) and our more extensive comments in GMC 13 Issue 1 re costs vs benefits). However, if they are</p>

⁴ [Staff Paper: Development of ED 302 M175 April 2020](#) (Key Issue 1)

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
<p>One respondent expressed the view small unsophisticated entities should be excluded from scope because it does not appear equitable to require an entity that could be, for example, less than 1% of the size of a small proprietary company to disclose additional information</p>	<p>Yes – BC11 of ED 302.</p> <p>The Board considered and rejected a threshold to limit the requirements to those entities that would meet the requirements to be considered a large proprietary company under the <i>Corporations Act 2001</i>.</p>	<p>prepare SPFS and state their SPFS have been prepared in compliance with AAS. Therefore, the proposals in ED 302 are arguably warranted for these entities.</p>	<p>considered to be disproportionately high, as the Board has previously observed, an entity could consider incurring the costs (including potential tax implications) of changing its constituting document to remove references to AAS.</p> <p>Although staff have some sympathy for concerns that very small trusts would need to comply with the proposals in ED 302 (or change their constituting documents), we do not identify any new arguments the Board has not exhaustively considered at least twice previously.</p> <p>Staff recommend option 3 – no changes to the proposals in ED 302 in relation to this issue.</p> <p>Question 5: Does the Board agree with the staff recommendation on Key Issue B(ii)?</p>
<p>(iii). Should the scope be widened to include entities required to prepare financial statements, but AAS are not mentioned (ie instead they are required to comply with eg GAAP)?</p> <p>Appendix A: SMC 2, Issue 6</p> <p>One respondent noted ED 302 excludes for profit private sector entities required by legislation to prepare financial statements where there is no mention of compliance with AAS/accounting standards (e.g. instead the</p>	<p>Yes – BC79 of AASB 2020-2.</p> <p>With reference to entities required to comply with GAAP, the Board decided “terms such as ‘accounting principles’ or ‘generally accepted accounting practice’ (GAAP) are more</p>	<p>Although not many respondents raised this point, it is a significant enough comment that we think specific re-consideration by the Board’s.</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Broaden the scope of ED 302 to include these types of entities; or 2) No changes to the proposals in ED 302 on this issue. <p>The issues surrounding which entities should be ‘captured’ in the application paragraphs of AAS has been discussed exhaustively by the Board recently, and as such staff do not identify any new arguments raised by respondents that would</p>

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<p>requirement might be to comply with generally accepted accounting principles).</p> <p>Another respondent suggested the proposals should apply to other for-profit entities that prepare SPFS in compliance with AAS, for example, those that voluntarily prepare SPFS (even though not required by legislation or otherwise to prepare financial statements)</p> <p>Appendix B: Concerns outside the scope of ED 302</p> <p>One respondent also considered that those with a requirement to present a 'true and fair view' should be required to comply with AAS.</p>	<p>broad [than references to AAS], and therefore the Board did not think it was reasonable to infer they were intended to require compliance with accounting standards issued by the AASB ..."</p> <p>With reference to 'true and fair view', see AASB 2020-2 BC77. The Board also already considered and decided against including 'true and fair view' within the application paragraphs.</p>		<p>warrant the Board re-considering the scope of the proposals for those entities.</p> <p>Accordingly, staff recommend option 2 – no changes to the proposals in ED 302 in relation to this issue.</p> <p>Question 6: Does the Board agree with the staff recommendation on Key Issue B(iii)?</p>

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<p>Key Issue C. If the answer to Key Issue A is 'yes', what operative date is suitable for the entities that you think should be within the scope that was determined in response to Key Issue B? (SMC 2 Issue 2/SMC 5)</p> <p>Feedback regarding the effective date of the ED 302 proposals was mixed, but a theme of deferral emerged by a significant number of respondents.</p>			
<p><i>Appendix A: SMC 5 and SMC 2, Issue 1</i></p> <p>Six respondents disagreed with the effective date of 1 July 2020.</p> <p>Two respondents suggested the effective date of the proposals should be pushed back to commence in line with the commencement date of AASB 2020-2 (ie from 1 July 2021), as a means of limiting the scope of the standard.</p> <p>One respondent noted that whilst in some cases determining whether an entity is adopting the R&M requirements of AAS is straightforward (e.g. in relation to accounting for leases), in other cases it may not be straightforward and may involve extensive review (e.g. accounting for revenue from customer contracts). They argue the proposed operative date is too soon.</p> <p>Three respondents questioned whether entities applying the requirements will have sufficient time, noting the impact of COVID-19 on resources.</p>	<p>No. The Board considered the operative date, but not in the context of its decisions in response to Key Issues A & B – particularly B (and nor in the context of COVID-19).</p> <p>In arriving at the operative date, the Board had regard to its Due Process Framework.</p> <p>The Board considered it would not be necessary to extend the operative date in developing ED 302 as the proposed amendments would not require an entity to change its existing accounting policies and therefore the information required to be disclosed would be based on an</p>	<p>A substantial number of respondents argued for deferral.</p> <p>The economic impact of COVID-19 and the effect it has had on entities has been significant, is ongoing, and could not have been predicted when issuing ED 302.</p> <p>Staff also acknowledge some issues faced by small entities might be more complex</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Delay the effective date to apply to periods beginning on or after 1 July 2021 with early adoption allowed; or 2) No changes to the proposals in ED 302 – apply to annual periods ending on or after 30 June 2021, with early adoption allowed. <p>Staff consider deferring the operative date by 12 months (with early adoption allowed) should give these entities enough time to prepare for the implementation of the proposals and it would also be a way for the Board to address the economic impact of COVID-19 on the proposals.</p> <p>Staff recommend option 1 – Delay the effective date to periods beginning on or after 1 July 2021 with early adoption allowed, noting that if the staff</p>

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<p><i>Appendix A: SMC 5, Issue 2</i></p> <p>Three respondents noted the proposed application date in ED 302 is approximately 6 months after the amendment is due to be issued, which they argue is inconsistent with the <i>AASB's Due Process Framework</i>.</p>	<p>entity's existing accounting policies and financial reporting practices (BC27 of ED 302).</p>	<p>than originally thought.</p>	<p>recommendation in response to Key Issue B is accepted, the operative date would only be relevant to entities required by their constituting document to prepare SPFS in accordance with AAS.</p> <p>Question 7: Does the Board agree with the staff recommendation on Key Issue C?</p>

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
<p>Key Issue D. If, consistent with staff recommendations on Key Issues A,B&C (such that only entities required by their constituting documents to prepare AAS SPFS from 1 July 2021 would be subject to the proposals), should entities have the option to state they have 'not assessed' compliance with certain R&M? (SMC 3 Issue 2).</p>			
<p><i>Appendix A: SMC 3, Issue 2</i></p> <p>One respondent disagreed with the justification in BC22 of ED 302 that the proposals should differ from the option NFP private sector entities currently have through AASB 2019-4 to merely disclose they have not assessed compliance with certain AAS (including R&M) requirements. They consider ED 302 does not provide sufficient justification to depart from the concept of transaction neutrality, as NFPs will in many ways be comparable in size and sophistication to those for-profit private sector entities that are not preparing financial statements in accordance with laws or other legislation.</p>	<p>Yes – BC22 of ED 302.</p> <p>The Board acknowledged these entities might benefit from being able to disclose they have 'not assessed'. However, the Board took the view that, in contrast to NFPs, for-profit entities would typically be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the R&M requirements in AAS as part of their good governance approach. The Board also was of the view entities small in size/sophistication would not be expected to have complex</p>	<p>Although only one respondent explicitly raised this issue, it is a substantive issue that has the potential to provide significant relief to the entities that would remain within the scope of ED 302, particularly in light of Key Issue A above, which notes some concern around cost/benefit.</p>	<p>Staff considered the following options:</p> <ol style="list-style-type: none"> 1) Provide an option for entities within scope to disclose they have 'not assessed' compliance, perhaps restricted in its availability through, for example: <ul style="list-style-type: none"> • arbitrary size criteria (targeted at small entities); or • an impracticability threshold (such that the option would only be available when an entity can justify it impracticability grounds) 2) No changes to the proposals in ED 302 on this issue. <p>There is merit in option 1, particularly for small unsophisticated entities (which we argue under Key Issue B(ii) should remain within scope). However, staff do not recommend providing that option on the following basis:</p>

Key Issue	Board's previous deliberations	Why it needs to be addressed again now (nature and extent of respondents' concerns)	Options and staff recommendation, with a brief rationale
	<p>transactions, and hence should be able to relatively easily determine the extent of R&M compliance.</p>		<ul style="list-style-type: none"> • no new arguments have been raised by respondents that suggest the Board's decisions need to be reassessed; • consistent with Key Issue A above, staff do not expect the disclosure to be onerous • the recommendation to delay the effective date by 12 months in Key Issue B above would already provide relief for potential complexity; and • the different approaches considered under Option 1 would lead to complexity and exceptions, which, also consistent with Key Issue B, the Board intends to avoid. <p>Staff recommend option 2 – no changes to the proposals in ED 302 for this issue, although consideration should be given to expanding the basis for conclusions to explain why the Board still does not think it would be appropriate to extend the relief.</p> <p>Question 8: Does the Board agree with the staff recommendation on Key Issue D?</p>

Table 2 Summary of other significant issues analysed in Appendix A, and staff recommendations

The following is a list of 'other significant issues' that remain pertinent if the Board accepts the staff views on the Key Issues A-D in Table 1 above. If that is not the case, we will refer you to relevant issues in Appendix A on a case-by-case basis during the discussion. Staff have noted below in particular the issues where staff recommend changes or improvements to the proposals in ED 302 in response to respondents' comments.

<p><u>SMC 2 Issue 5</u></p> <p>The application paragraphs in AASB 1057 <i>Application of Australian Accounting Standards</i> should be amended to specify that certain accounting standards (such as AASB 1054) apply 'to entities that are required by legislation to comply specifically with this accounting standard, but not necessarily Australian Accounting Standards overall'</p>	<p>Staff view: Disagree with this suggestion</p> <p>Question 9: Does the Board agree with the staff view on SMC 2 Issue 5?</p>
<p><u>SMC 3 Issue 1</u></p> <p>Disclosure should also be required of:</p> <p>(a) information about disclosure requirements not complied with;</p> <p>(b) additional information about subsidiaries, joint ventures and associates; and</p> <p>(c) the entity's reporting framework and whether the statements are GPFS or SPFS (ie paragraphs 8 and 9 of AASB 1054).</p>	<p>Staff view: Disagree with (a) & (b); agree with (c).</p> <p>Question 10: Does the Board agree with the staff view on SMC 3 Issue 1?</p>
<p><u>SMC 3 Issue 4</u></p> <p>In relation to paragraphs 9C(e) and 9C(f):</p> <ul style="list-style-type: none">a) the terms 'indication' and 'overall' should be clarified;b) paragraph 9C(f) is redundant given paragraph 9C(e); andc) joint operations should be 'excluded' in the same way AASB 10 and AASB 128 are from the overall R&M compliance statement.	<p>Staff view: Disagree that changes are required for (a), (b) & (c)</p> <p>Question 11: Does the Board agree with the staff view in SMC 3 Issue 4?</p>
<p><u>SMC 4 Issue 2</u></p> <p>The examples should make it clearer that, in the scenarios illustrated, the SPFS are required to comply with AAS.</p>	<p>Staff view: Agree</p> <p>Question 12: Does the Board agree with the staff view on SMC 4 Issue 2?</p>
<p><u>SMC 4 Issue 4</u></p> <p>The 6th row of the table in IG29 is confusing and should be clarified.</p>	<p>Staff view: Agree</p> <p>Question 13: Does the Board agree with the staff view on SMC 4 Issue 4?</p>

<p><u>SMC 6 Issue 1</u></p> <p>Entities should be required to make an explicit statement of the absence of subsidiaries or investments in associates or joint ventures.</p>	<p>Staff view: Disagree, but the Board’s rationale should be included in any resulting basis for conclusions.</p> <p>Question 14: Does the Board agree with the staff view on SMC 6 Issue 1?</p>
<p><u>GMC 8 Issue 1</u></p> <p>The proposals should be rejected because the Framework explicitly states AASB does not set standards for SPFS.</p>	<p>Staff view: Disagree, but the Board’s rationale should be included in any result in basis for conclusions.</p> <p>Question 15: Does the Board agree with the staff view on GMC 8 Issue 1?</p>

<p>Table 3 Summary of remaining issues staff consider less significant in the context of this project</p> <p>Staff consider the following list of remaining issues are insignificant if the Board accepts the staff views on Key Issues A-D in Table 1 above and would not have a significant impact on the implementation of the proposals. Hence, staff recommends no action for all of the following issues.</p> <p>Question 17 Are there any other issues (in the original submissions, our analysis in Appendices A or B, or from elsewhere) Board members would like to raise? In particular, are there any staff recommendations you disagree with?</p>	
<p><u>SMC 2 Issue 3</u></p>	<p>The proposed disclosures would not be enforceable for many entities. They should be made enforceable or scrapped.</p>
<p><u>SMC 3 Issue 5</u></p>	<p>An explicit reference to the definitions of ‘interest’ and ‘subsidiary’ should be included by cross-reference to the relevant accounting standard.</p>
<p><u>SMC 4 Issue 1</u></p>	<p>The implementation guidance and illustrative examples have some potential to encourage boilerplate disclosures.</p>
<p><u>SMC 4 Issue 3</u></p>	<p>Inadequate illustration of paragraph 9C(f) – ‘overall compliance’</p>
<p><u>Appendix B: issues outside scope</u></p>	<p>Issue 1 – A sunset clause for grandfathered SPFS should be introduced to effectively ‘force’ them to either change their constitution or prepare GPFS.</p> <p>Issue 2 –Financial reporting by self-managed superannuation funds needs to be addressed.</p>

Next Steps

17 Staff suggest the following timeline should the Board agree with staffs’ recommendations throughout the paper.

Task	Timing
Staff to prepare ballot draft of the amendments	4 December 2020
Board voting period on ballot draft (allow for at least two weekends for voting)	7 – 21 December 2020
Issue final amendments	24 December 2020
Staff education materials	Q1 2021

18 Staff considered another option was for the Board to vote on the ballot draft in session at the February 2021 Board meeting. However, to give affected entities enough time to prepare and bring the amendments as close as possible to the suggested implementation period suggested by paragraph 7.9.2 of the [AASB Due Process Framework for Setting Standards](#), staff have recommended voting out of session as soon as possible.

Question 18: Does the Board agree with the suggested next steps and timetable?

Appendix A Collation of written responses for each SMC/GMC

The purpose of this collation is to structure comments received on ED 302 as a basis for developing the Tables 1-3 (see above) that are designed to help facilitate Board discussion.

As noted, **this Appendix is included as a reference resource providing a more detailed context of the submissions, staff analysis and staff recommendations if required during Board discussions.** Consequently, Board members are not expected to read the Appendix in its entirety. There is repetition between the body and the Appendix.

Of necessity, staff have used judgement in preparing the collation and therefore it is not intended as a substitute for reading the original submissions.

Although in some places respondent comments have been quoted verbatim, generally they have been paraphrased or summarised by staff with the intention of capturing the gist of the comment, and therefore there is a risk nuances might not have been captured.

To minimise repetition, where a respondent has repeated a comment in multiple places under different SMCs/GMCs, staff have used judgement to record the comment only once under the SMC/GMC considered most suitable. Where it was considered appropriate to repeat a respondent's comment in more than one place, cross-references have been provided in the footnotes. Furthermore, we have not attributed a respondent's comment to the SMC/GMC under which it was made if we felt there was benefit in grouping it with like comments made by other respondents under another SMC/GMC. As a result, we have not intentionally omitted any substantive comments.

Where a respondent did not explicitly express a view on a particular SMC/GMC, but expressed support or disagreement for the overall proposals in ED 302, where it could be interpreted as including support/disagreement for a particular SMC/GMC, staff have applied judgement in classifying these respondents on whether they agree, disagree etc.

In certain areas some respondents expressed views on particular SMCs/GMCs that we found difficult to reconcile with the views they expressed on other SMCs/GMCs. Where necessary, we contacted those respondents to clarify their views and this collation incorporates those subsequent discussions. We found it particularly challenging to reconcile some comments made by certain respondents under SMC 1 (re whether the proposals would improve transparency/comparability) with their comments under GMC 11 (whether the proposals would result in useful information for users). We have classified them consistently between the two matters for comment, and added footnotes explaining our reasoning.

SMC 1 WILL THE PROPOSED DISCLOSURES RESULT IN IMPROVED TRANSPARENCY AND COMPARABILITY

Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	4 (PS1-PwC, PS3-KPMG, PS7-EY, PS9-GT)	1 (PS10-FRS ⁵)	1 (PS4-Nexia)		1 (PS2-PP)	7
Professional body	1 (PB12-IPA)		4 (PB5-AICD ⁶ , PB6-APESB ⁷ , PB8-CA/CPA, PB11-ASPFE ⁸)			5
Webinar polling results (see also Appendix C of this paper)						
Do you agree the proposed disclosures will improve the transparency and comparability of SPFS?						
Webinar polling results	16 (Yes)		1 (No)	3 (Unsure)	16 (did not respond)	

As noted above, there is an obvious close relationship between SMC 1 (will the particular proposals lead to greater transparency and comparability of SPFS?) and GMC 11 (will the proposals overall lead to more useful information?). However, the comments made by some respondents under the

⁵ FRS expresses the view the proposals should not apply to entities within the scope of AASB 2020-2, which is addressed under SMC 2 Issue 1 (scope of the proposals) rather than here.

⁶ AICD's comments relate to the unnecessary burden that would be imposed on entities with a non-legislative requirement to prepare financial statements, which is addressed under SMC 2 Issue 2 (scope of the proposals) rather than here.

⁷ APESB's comments under SMC 1 included "APESB does not agree that the proposals in ED 302 should be imposed on all the entities captured and will result in a suboptimal impact on entities where there are no users of financial reports other than the entity and its funders." This could have been categorised in the collation table as 'agree with comment' on the basis it implies APESB agrees the proposals would improve transparency/comparability at least for users of some entities' SPFS. However, given the overall tone of APESB's comments, we have categorised it as 'disagree'.

⁸ ASPFEO strongly support the submission by CA/CPA and therefore it's view on SMC 1 is categorised in the same way

respective matters for comment could be perceived as inconsistent to some extent and staff have identified this via footnotes.

SMC 1 Issue 1 – Insufficient evidence supporting an increase of transparency and comparability would arise from the proposals

[See/return to Key Issue A\(i\)](#)

PB6-APESB argued ED 302 does not include research findings that indicate users of SPFS of entities required to comply with AAS only by their constituting or other documents have found the disclosure requirements under APES 205 (see immediately below) to be insufficient.

[APES 205 requires members of CA ANZ, CPA Australia and the IPA who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of SPFS to take reasonable steps to ensure the report clearly identifies:

- that the financial statements are SPFS;
- the purpose for which the SPFS have been prepared; and
- the significant accounting policies adopted in the preparation and presentation of the SPFS.]

PS4-Nexia noted AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* relies on data that predates the change in proprietary company reporting thresholds. They argued AASB has not provided any current analysis to determine the extent to which the increase in the proprietary company reporting thresholds reduces the ‘problem’ described in ED 302.

PB8-CA/CPA noted they are not aware of research-based evidence that demonstrates the proposed additional disclosures will assist user understanding of SPFS. This includes users of financial statements of entities with constitutional reporting requirements that cite the requirement to comply with AAS, which the AASB scoped out of the reforms being implemented through AASB 2020-2. CA/CPA noted in particular the reason such entities prepare SPFS, being that users can demand the information they require, provides an argument for the Board to not require disclosures for entities outside the scope of AASB 2020-2.

Staff analysis

Staff consider there is sufficient evidence supporting the usefulness (through increased transparency and comparability) of the proposals.

For example, [AASB Research Report 12](#) (pages ii and iii) indicated that for 34% of examined entities preparing and lodging SPFS with ASIC in 2018, the extent of compliance with R&M requirements was not clear. Of these 34%:

- a) 10% did not appear to be following all R&M requirements in AAS, of which only 0.5% of that 10% clearly stated so (see table 3.1 of Research Report 12);
- b) after qualitative assessment of their detailed accounting policies, 10% appeared to follow all R&M requirements in AAS; and
- c) the extent of compliance (or otherwise) with the R&M requirements in AAS of the remaining 14% was unclear.

Staff acknowledge Research Report 12’s data were drawn from entities within the scope of AASB 2020-2 (and previous large proprietary company thresholds) and therefore largely outside the scope of ED 302, rather than those with a non-legislative requirement to comply with AAS. Despite this, it is justifiable that the evidence from that Report is applied by analogy as there is no basis to expect SPFS within the scope of ED 302 would have adopted better disclosure practices than those within the scope of Research Report 12.

Furthermore, as previously publicly reported at the April 2020 AASB Board meeting, research conducted via a survey by staff in December 2018 with users of financial statements prepared by for-profit entities⁹ determined the following:

- on average 93% of primary users and more than 95% of other users said comparability, transparency, comprehensibility and consistency are what they need most in financial statements; and
- only 43% of primary users and 56% of other users said they are satisfied with the information presented in SPFS.

Staff acknowledge respondents to this survey were generally involved with entities within the scope of AASB 2020-2, rather than those that would be included within the scope of the proposals in ED 302 on an ongoing basis. However, there were a number of users that would appear to use financial statements of entities that might not be within the scope of AASB 2020-2 but would be within the scope of ED 302, such as limited partnerships (9 of 37 respondents) and 'others, including incorporated associations and trusts' (5 of 37 respondents). On that basis, staff consider the findings of that research remains relevant in suggesting users would benefit from the proposed disclosures.

Staff further acknowledge anecdotal feedback that many references to AAS were included in trust deeds historically without a full appreciation of the implications of them being ambulatory references rather than static. However, we do not think that would justify rejecting the proposals as the AASB's acknowledgement of that situation is the main reason why it proposed only contextual disclosures rather than requiring transition to GPFS by such entities (paragraphs BC3 – BC5 of ED 302).

Overall, staff consider the Board's proposals are commensurate with the evidence outlined above. Subject to the Board's decisions on later SMCs/GMCs, staff consider additional research would unduly delay the project. It would only be justified as part of the ED 302 project if the Board were seeking to impose more onerous proposals than those in ED 302 (such as mandating R&M requirements).

Staff view

Subject to consideration of the costs of the proposals versus the benefits (see [GMC 13](#) below), staff recommend the Board proceed with the project without delaying it to obtain further detailed evidence, on the basis there is sufficient evidence that the proposals would result in timely useful (improved transparency/comparability) information for users. Staff suggest including the relevant analysis of the evidence supporting the proposals above into the BC of the final amendments.

The remainder of this collation proceeds on the basis the Board agrees with this staff view.

[See/return to Key Issue A\(i\)](#)

⁹ [AASB Staff Paper: For-profit User and Preparer Survey Results](#)

SMC 2 TYPES OF ENTITIES SUBJECT TO THE PROPOSALS

Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are:

(a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and

(b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards.

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	2 (PS1-PwC, PS9-GT)	3 (PS3-KPMG, PS7-EY, PS10-FRS)	1 (PS2-PP)		1 (PS4-Nexia)	7
Professional body		1 (PB12-IPA ¹⁰)	4 (PB5-AICD, PB6-APESB, PB8-CA/CPA, PB11-ASPFEO ¹¹)			5
Do you agree with the scope of the proposals?						
Webinar polling results (see Appendix C)	15 (Yes)		5 (No)	3 (Unsure)	13 (Did not respond)	

SMC 2 Issue 1 – Entities within the scope of AASB 2020-2 should be excluded

[See/return to Key Issue B\(i\)](#)

Six respondents (PS2-PP, PS3-KPMG, PB5-AICD, PB6-APESB, PB8-CA/CPA, PS10-FRS) were concerned with the proposals applying to entities within the scope of AASB 2020-2, as the proposals would only be applicable for one year for these entities. They also noted the transition to GPFs for financial years commencing 1 July 2021 would be a significant undertaking for these entities and consider the time and resources to include additional disclosures at 30 June 2021, for one year only, would exceed any benefits of the additional disclosure. These respondents did not advocate deferring the commencement date of AASB 2020-2 – rather they argued these entities should not be subject to the ED 302 proposals at all. Two of these respondents (PS3-KPMG, PB8-CA/CPA) noted the effects of COVID-19 would intensify this undertaking for these entities.

¹⁰ IPA advocates a sunset period be set for any grandfather provisions, in which time legislation or constituting documents would need to be modified to avoid a requirement to transition to GPFs. This issue is discussed in Appendix B 'Concerns raised by respondents that beyond the scope of the ED 302 project' rather than here.

¹¹ ASPFEO strongly support the submission by CA/CPA and therefore it's view on SMC 2 is categorised in the same way.

Two respondents (PS2-PP, PS3-KPMG) suggested the effective date of the proposals should be pushed back to commence in line with the commencement date of AASB 2020-2 (ie from 1 July 2021), as a means of limiting the impact of the standard to only those entities requiring compliance with AAS whose constituting document (or another document) was created or last amended before 1 July 2021.

PB8-CA/CPA noted feedback from a CA ANZ survey that showed 67% of respondents considered they would require external support to transition from SPFS to GPFS from 1 July 2021. CA/CPA argue resources would be better spent on education and transition to GPFS, rather than preparing the additional disclosures, despite acknowledging that the information on R&M compliance would be needed for entities to transition to GPFS. (In relation to this latter point, PS9-GT noted that, in the context of the transition from SPFS to GPFS per AASB 2020-2, the imposition of the proposals in 30 June 2021 would impose an additional burden on the financial reporting function of entities, however there is a net benefit that can reasonably be expected in assisting with the preparation and planning for AASB 2020-2 becoming effective.)

PB6-APESB also noted the AASB considered requiring similar additional disclosures under ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (the outcome of which was AASB 2019-4 and applicable only to NFP private sector entities preparing SPFS) but ultimately decided the cost of requiring for-profit entities within the scope of AASB 2020-2 to include the additional disclosures for just one year¹² before they had to transition to GPFS did not outweigh the benefits. Despite the application of AASB 2020-2 being delayed by one year, APESB does not believe sufficient evidence has been presented in the context of ED 302 that the benefits of the additional disclosure for one year would outweigh costs of preparation. (Refer to [SMC 1 Issue 1](#) for further analysis on insufficient evidence.)

Staff analysis

By way of background to this issue, we note that after considering feedback from respondents to ED 293, the Board decided to limit the resulting amendments in AASB 2019-4 to NFP entities. As noted in paragraph BC43 of AAASB 2019-4, this was because respondents “were particularly concerned about the costs of the ED 293 proposals exceeding any benefits for for-profit private sector entities given the ED 293 proposals were intended to be only a short-term measure for these entities”.

However, in the development of AASB 2019-4, the Board decided it would reconsider the application of the requirements in AASB 2019-4 for for-profit private sector entities if the proposals at the time in ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (the outcome of which was AASB 2020-2) were not finalised as proposed (with an effective date of 1 July 2020).

Therefore, in light of the effective date of AASB 2020-2 being delayed by one year until 1 July 2021 and for-profit private sector entities with a non-legislative requirement to comply with AAS being exempt from AASB 2020-2, the Board decided to reconsider through ED 302 requiring disclosures about an entity’s compliance with R&M requirements in the SPFS of for-profit entities. In other words, the reason to not include the entities within AASB 2019-4 were no longer relevant because the proposals in ED 297 were not finalised as proposed.

Consistent with our views in relation to [SMC 1](#), our initial reaction is the disclosures by entities within the scope of AASB 2020-2 would be of benefit to users. Furthermore, in normal

¹² At the time of that decision, ED 293 was proposed to be applicable for periods ending on or after 30 June 2020, and ED 297 (which resulted in AASB 2020-2) was proposed to be applicable for periods beginning on or after 1 July 2020 (ie 30 June 2021 year-ends).

circumstances, they should not be too onerous for preparers, for the reasons discussed by the Board previously in developing ED 302 (including the delayed implementation date of AASB 2020-2, as well as the observation that information required by ED 302 would assist with the transition to AASB 2020-2 anyway – as explicitly acknowledged by PS3-KPMG and PS9-GT to ED 302).

For those entities with a legislative requirement to comply with AAS or accounting standards, staff note that RG 85 states “ASIC believes that non-reporting entities, which are required to prepare financial reports in accordance with Chapter 2M of the Corporations Act 2001 (Act), should comply with the recognition and measurement requirements of accounting standards”, “hence, the recognition and measurement requirements of accounting standards must also be applied in order to determine the financial position and profit or loss of any entity preparing financial reports in accordance with the Act”. Staff therefore consider that, for these entities, determining R&M compliance in AAS should be relatively straightforward.

However, staff acknowledge the economic impact of COVID-19 has been significant, is ongoing, and could not have been predicted when issuing ED 302. On that basis, staff can accept the practical arguments that the introduction of new disclosures, despite being based on factual information, would add some incremental time to prepare and audit for years-ending 30 June 2020. Staff consider excluding entities within the scope of AASB 2020-2 from the proposals in ED 302 might be a way of providing at least some resource relief during the pandemic, whilst having limited effect on users (because those entities are due to transition to GPFS the following year).

Staff also note COVID-19 has had an impact on the work program of the AASB that has led to the proposals in ED 302 having a similar ‘short life’ as they were to have in ED 293 on these entities. Excluding entities within the scope of AASB 2020-2 from the proposals in ED 302 would allow them to use this time to prepare for transitioning to GPFS. Staff consider it to be a reasonable and pragmatic way of providing at least some relief during the pandemic.

Staff view

Staff recommend the Board exclude ‘entities required by legislation to prepare financial statements that comply with either AAS or accounting standards’ from the scope of the proposals.

The remainder of this collation proceeds on the basis the Board agrees with this staff view, and therefore focuses on comments from constituents relating to the application of the proposals to ‘for-profit entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS’.

[See/return to Key Issue B\(i\)](#)

SMC 2 Issue 2 – The very nature of SPFS render the proposals redundant

[See/return to Key Issue B\(ii\)](#)

Three respondents (PS2-PP, PB5-AICD, PB8-CA/CPA) argued entities not required to adopt AASB 2020-2 and AASB 1060 should also be excluded from the ED 302 proposals on the basis these entities prepare accounts for specific users, have no external regulator and the financial statements are not lodged on the public record.

In addition, PB6-APESB expressed the belief that users of SPFS for entities required by their constituting document or other documents to comply with AAS “are different from those lodging with ASIC (which are publicly available documents) and, in many instances, would be limited to the owners and those who provide funding (such as banks) who are in a position to demand the information they require.” They therefore had significant concerns with the proposed new disclosures being imposed on these entities.

Staff analysis

Overall, staff do not identify any new arguments in the above comments from respondents that the Board had not discussed in developing ED 302, and on that basis do not suggest removing entities with a non-legislative requirement to comply with AAS from the scope of this project.

Based on data from 2016-2017 tax returns, there appears to be more than 359,000 trusts with a non-legislative requirement to comply with AAS that would be captured by the proposals. In addition, other types of entities that may be affected include partnerships, joint arrangements and self-managed superannuation funds, as well as entities subject to other requirements such as lending agreements. Although staff have been unable to quantify the number of these entities that would be affected, we think it reasonable to expect there might be a significant number of them.

The lack of transparency in the SPFS of these entities despite them stating they have prepared their SPFS in compliance with AAS was not contemplated at the time ED 293 was issued. This is because the exemption in AASB 2020-2 for entities with a non-legislative requirement to prepare financial statements that comply with AAS had not yet been finalised so it was unclear how many, if any, entities would still be able to prepare SPFS.

Staff acknowledge these entities were excluded from AASB 2020-2 because they prepare accounts for specific users, have no external regulator and the financial statements are not lodged on the public record, however, it is now known that for the foreseeable future these entities will be able to continue to prepare SPFS and state that their SPFS have been prepared in compliance with AAS.

In addition, staff are aware anecdotally there would be some types of entities, such as securitised trading trusts, outside the scope of AASB 2020-2 (and therefore permitted to continue preparing SPFS) but lodging SPFS on the public record¹³. Accordingly, this means there are publicly available SPFS that do not necessarily specify whether or not they comply with R&M, despite stating compliance with AAS.

Staff do not expect the ED 302 proposed disclosures to be onerous (see our comments in [GMC 13 Issue 1](#) re costs vs benefits). However, if they are determined to be disproportionately high by an individual entity, that entity would have the option of considering incurring the costs (including potential tax implications) of changing its trust deed to remove references to AAS, and thereby exclude itself from the scope of the proposals.

Staff view

Staff recommend the Board proceed with the proposal to include entities with a non-legislative requirement to comply with AAS within the scope of this project.

[See/return to Key Issue B\(ii\)](#)

SMC 2 Issue 3 – The proposed disclosures would not be enforceable for entities required by only their constituting document or another document to prepare financial statements that comply with AAS (created before 1 July 2021)

[See/return to remaining issues table](#)

PS3-KPMG supported the proposed disclosures applying to for-profit private sector entities required by their constituting document or another document (created or last amended before 1 July 2021) to prepare financial statements that comply with AAS. However, they comment “To effectively implement the proposed disclosures ... we would encourage the AASB to work closely

¹³ Such as publicly traded securitisation trusts referred to in the Australian Securitisation Forum’s submission to previous AASB consultation documents: https://www.aasb.gov.au/admin/file/content102/c3/4.2.2_ITC39_sub17_ASF_M167.pdf

with regulators and those with enforcement powers over SPFS preparers by aligning their requirements to the proposed disclosures. Without this we question how the AASB could ‘enforce’ those entities preparing SPFS to make the proposed new disclosures”.

PB8-CA/CPA argued “the AASB does not have direct standard setting responsibility for these entities (required to prepare financial statements by their constituting document or another document) and the proposal seems to be recommending additional disclosures based on a desire to standardise the interpretation of wording that historically has been interpreted far less prescriptively.”

PB6-APESB noted paragraph 17 of the *AASB’s For-Profit Entity Standard-Setting Framework* states:

“Enforcement of preparation of financial statements and compliance with accounting standards is the responsibility of other regulators (e.g., Australian Securities and Investments Commission). It is not the responsibility of the AASB.”

APESB is of the view that if ED 302 proposals were to be imposed on all entities required only by their constituting or other documents to comply with AAS, not only will it result in an unnecessary regulatory burden, but this could result in a regulatory and monitoring gap. That is, there is no entity such as ASIC to regulate compliance.

Staff analysis

Staff acknowledge and agree the AASB is not responsible for the enforcement of the preparation of financial statements and compliance with accounting standards (para. 17 [AASB’s For-Profit Entity Standard-Setting Framework](#)). Further, an entity is not required to apply the accounting standards unless required by legislation or an entity’s constituting/other document, and the AASB has no mandate to require an entity to prepare a financial report.

The Board’s role and expertise is to determine the appropriate accounting framework and accounting standards that should apply where legislation, regulation or another authority requires the preparation of financial statements that comply with AAS. Requiring additional disclosures in SPFS to provide greater transparency/comparability regarding compliance with the R&M requirements in AAS is consistent with this role. In response to comments that the AASB should also not ‘enforce’ accounting requirements in SPFS (by making them applicable within the AAS framework), we note the Board states in paragraph BC18 of ED 302 that setting minimum R&M requirements in SPFS is beyond the objective of the project.

We consider the matter of whether or not the proposals are enforced is a matter for other stakeholders. For example, enforcement of the requirements might require action from those involved in the creation of constituting documents, or at a more extreme level the formation of a new regulatory authority. In lieu of this, we also acknowledge the onus of ‘pseudo-enforcement’ might fall upon members of CAANZ, CPA Australia and IPA, insofar as those members are professionally obliged to follow the requirements of APES 205 *Conformity with Accounting Standards* (which is itself enforceable by those professional bodies).

However, irrespective of *who* is ultimately responsible for enforcement, staff do not think that lack of enforcement should stop the Board proceeding with the project. Furthermore, enforcement is not the only way to achieve compliance, education programs could also be used to encourage compliance.

Staff view

Staff do not recommend enforceability of the proposals should stop the Board from proceeding with the ED 302 project. However, to encourage compliance, education materials on any final requirements will be important.

[See/return to remaining issues table](#)

SMC 2 Issue 4 – Small entities required by their constituting or another document to comply with AAS should be exempt

[See/return to Key Issue B\(ii\)](#)

PB6-APESB noted the proposals in ED 302 do not apply to small proprietary companies, by virtue of the Corporations Act (under the Act a small proprietary company must meet two of the three following criteria – less than \$50m consolidated gross revenue, \$25m consolidated gross assets and 100 employees). In contrast, ED 302 is proposed to apply to all entities required by their constituting or another document to comply with AAS, regardless of size. This would result in the anomalous outcome that, for example, a family trust with \$200,000 revenue, \$100,000 assets and no employees would be caught by the requirements. “It does not appear equitable to require an entity that could be less than 1% of the size of a small proprietary company to disclose additional information.” (See page 6 of APESB response to SMC1.)

APESB strongly recommended that, if the proposals proceed, an appropriate threshold be determined as previously considered (and rejected) by the AASB in the development of ED 302.

Staff analysis

When considering which for-profit private sector entities should be required to make the proposed disclosures, the Board considered four options (see paragraph BC10 of ED 302). The Board concluded option (b)¹⁴ was the most appropriate.

The Board considered option (c), which would apply to those entities referred to in option (b), with a threshold to limit the requirements to those entities that would meet the requirements to be considered a large proprietary company under the *Corporations Act 2001*.

However, the Board noted option (c) was not the most appropriate alternative as it would be complex to apply and would also result in certain entities that are already subject to exemption from AASB 2020-2, being subject to further exemptions by the proposals in ED 302, which may result in complexity risks. The Board has also previously resisted adding such complexities in response to recommendations to avoid legislative complexities, such as in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The Board also found that the option was likely to limit the application to approximately 0.1% of trusts (based on data received from the ATO), and therefore called into question whether it would address the problem ED 302 was designed to address adequately.

Staff note a similar approach (ie using the large proprietary thresholds) could have been used to scope which entities without a legislative requirement to comply with AAS would be affected by AASB 2020-2, and thus have to prepare GPFs. However, the Board also decided against such an option in that project for similar reasons (see AASB 2020-2 paragraphs BC87-BC88).

Staff considered whether any other options would be available to provide relief to the smallest entities, such as setting thresholds at an arbitrary level lower than the large proprietary thresholds. However, staff could not identify any options that would avoid creating exceptions to already existing exceptions.

¹⁴ Those for-profit private sector entities that are required by legislation to prepare financial statements that comply with either AAS or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS, provided that the relevant document was created or last amended before 1 July 2021.

Therefore, although we have some sympathy for concerns that very small trusts would need to comply with the proposals in ED 302 (or change their constituting documents), staff do not identify any new arguments that the Board has not exhaustively considered at least twice previously.

Staff also note that small proprietary companies are not typically captured within the proposals as they do not have any requirement to comply with AAS or accounting standards. Should they have this requirement (for example, the Regulator directed the lodgement of a financial report, or a constituting document required a financial report to be prepared in accordance with AAS), they would be appropriately captured within the proposals.

Staff view

Staff recommend continuing as proposed in relation to this issue.

[See/return to Key Issue B\(ii\)](#)

SMC 2 Issue 5 – Proposed scope is not reflected in AASB 1057

[See/return to other issues table](#)

PS7-EY, who broadly agreed with the proposals, expressed concern that “the proposed scope in new proposed paragraph 2 of AASB 1054 is not reflected in the proposed consequential amendments to AASB 1057 *Application of Australian Accounting Standards*. The application paragraphs in AASB 1057 should make it clear that they also apply to FP entities that are required by legislation to comply specifically with AASB 1054 (while having no requirement to comply with AAS overall).”

Staff analysis

Staff understand this comment is suggesting the application paragraphs in AASB 1057 be amended to specify that certain accounting standards (such as AASB 1054) apply ‘to entities that are required by legislation to comply specifically with this accounting standard, but not necessarily Australian Accounting Standards overall’. This could become relevant where, for example, a piece of legislation only required an entity to comply with AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054 (as would be required for ACNC-registered entities in accordance with s60.30 of the *Australian Charities and Not-for-Profits Commission Regulations 2013*).

Staff acknowledge including such a reference in the application paragraphs might be useful for stakeholders, particularly as a ‘placeholder’ or ‘reminder’ for them to consider whether there are any legislative requirements to apply specific standards.

However, staff do not recommend the Board amend the application paragraphs in AASB 1057 in response to this EY comment on the following basis:

- Technically, it is unnecessary. This is because AAS, as delegated legislation, cannot override or contradict the requirements of other legislation. In other words, it would be incorrect for an entity not to apply an accounting standard when a piece of legislation specifically requires it to, even if the application paragraphs did not specifically mention that type of entity or legislative reference to application of the standard.
- It would be complex and may risk unintended consequences. This is because AASB 1057’s scope would first need to be expanded to encompass any possible reference to AAS (as a whole) or a specific AAS that might exist in legislation and ensure that AASB 1057 (as a whole) applies to such circumstances. The Board would then need to consider each standard’s application (not only AASB 1054’s) and amend each accordingly to ensure they would appropriately envisage different types of references to AAS (or sub-sets of AAS). This could be complex because staff would need to understand what different types of specific references

exist and would also need to continuously monitor and potentially update AASB 1057 to acknowledge any new changes. For example, staff are aware anecdotally that, in addition to legislative references to applying a specific standard, there might also be legislative references to apply certain paragraphs of an AAS, or even certain definitions contained within an AAS.

Staff view

Staff do not recommend the Board amend the application of AASB 1057 further to that proposed in ED 302.

[See/return to other issues table](#)

SMC 2 Issue 6 – Guidance needed on SPFS outside scope of ED 302

[See/return to Key Issue B\(iii\)](#)

PB12-IPA notes that the scope of ED 302 excludes:

- for profit private sector entities required by legislation to prepare financial statements where there is no mention of compliance with Australian Accounting Standards/accounting standards; and
- for profit private sector entities required by their constituting documents (or equivalent) to prepare financial statements that comply with generally accepted accounting principles.

IPA was unsure whether such financial statements are still classed as SPFS. In the absence of any guidance, except for the narrow application of the amendments proposed in ED 302, such circumstances will provide challenges for professional accountants and auditors.

PS7-EY suggested that “the proposals should apply to other for-profit entities that prepare SPFS in compliance with AAS, for example, those that voluntarily prepare SPFS (even though not required by legislation or otherwise to prepare financial statements).” Furthermore, discussion regarding whether self managed superannuation funds should require compliance with AAS is discussed in [Appendix B, Issue 2](#).

Furthermore, discussion regarding respondents’ comments about whether a requirement that financial statements ‘present fairly’ or present a ‘true and fair view’ should also be required to comply with AAS is discussed in [Appendix B, Issue 3](#).

Staff analysis

The issues surrounding which entities should be ‘captured’ in the application paragraphs of AAS has been discussed exhaustively by the Board recently, and as such staff do not identify any new arguments raised by respondents’ comments on ED 302 that would warrant the Board re-considering the scope of the proposals for those entities mentioned by respondents above.

With reference to entities required to comply with generally accepted accounting principles, paragraph BC79 of AASB 2020-2 sets out the Board’s decision that “terms such as ‘accounting principles’ or ‘generally accepted accounting practice’ (GAAP) are more broad [than references to Australian Accounting Standards], and therefore the Board did not think it was reasonable to infer they were intended to require compliance with accounting standards issued by the AASB and accordingly such references are not within the scope of this Standard.”

AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements*, which was the basis for the Board discussing application paragraphs in developing AASB 2020-2, also acknowledges that certain types of entities are required by legislation to prepare financial statements, but have no reference to AAS or accounting standards, and therefore are not required to apply AAS. Whilst the Board did not specifically consider whether such entities should be

required to comply with AAS, staff think it is clear the Board does not intend this, considering the Board's view that terms such as 'accounting principles' and GAAP appear to be too broad.

On that basis staff think it is clear, and therefore should not be reassessed as part of ED 302 deliberations, that such entities are not required to comply with AAS. Consequently, whether an entity chooses to prepare financial statements (or indeed appears to be compelled to) that comply with AAS, and the extent to which they comply with the requirements within AAS, would be a matter for those charged with governance of the entity. Additionally, as noted earlier, whether to comply with AAS in preparing financial statements may also be subject to a member of a professional body considering the requirements of ethical standards, such as APES 205.

Staff also note that any other for-profit entities voluntarily preparing SPFS in accordance with AAS could also choose to comply with the disclosures proposed in ED 302.

Staff view

Staff do not recommend any changes to the proposals in relation to this issue on the basis the Board has already discussed and excluded such types of entities from the requirement to comply with AAS.

[See/return to Key Issue B\(iii\)](#)

SMC 3 THE SPECIFIC PROPOSED DISCLOSURES

Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:

(a) the basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));

(b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9C(c));

(c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));

(d) 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 (including the requirement to disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and

(e) an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services		5 (PS1-PwC, PS3-KPMG, PS7-EY, PS9-GT, PS10-FRS)	2 (PS2-PP, PS4-Nexia ¹⁵)			7
Professional body		1 (PB12-IPA)	4 (PB5-AICD ¹⁶ , PB6-APESB, PB8-CA/CPA ¹⁷ , PB11-ASPFEO ¹⁸)			5
Do you agree with the proposed disclosures?						
Webinar polling results (see Appendix C)	11 (Yes)		2 (No)	9 (Unsure)	14 (Did not respond)	

¹⁵ Nexia are not supportive of any of the proposals in ED 302 on the basis the amendments are not necessary. Refer to GMC 13 Issue 1 (cost/benefit analysis).

¹⁶ AICD's comments relate to adding unnecessary complexity at a time entities should be focussed on transitioning to AASB 2020-2. This issues is discussed under SMC 2 Issue 1 above rather than here.

¹⁷ CA/CPA's comments relate to insufficient evidence to support the disclosures and is discussed under SMC 1 Issue 1 above rather than here.

¹⁸ ASPFEO strongly support the submission by CA/CPA and therefore it's view on SMC 3 is categorised in the same way

SMC 3 Issue 1 – Additional disclosure recommendations

[See/return to other issues table](#)

(a) Information is needed about omitted AAS disclosures

PS1-PwC recommended requiring entities to identify AAS where material disclosures have been omitted in the SPFS, that would normally be included in GPFS for these types of entities. This would highlight to users where information has been omitted that may be relevant for understanding amounts presented in the financial statements.

PS3-KPMG recommended requiring entities to include discussion around AAS disclosures that have not been made in respect of balances or types of transactions, for example if an entity had significant related party transactions but AASB 124 *Related Party Disclosures* disclosures were not made. "... [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."

(b) Information about subsidiaries, joint ventures and associates

PB12-IPA considered the proposals in relation to subsidiaries, joint ventures and associates to be inadequate. In particular, disclosure should be required of the carrying value of the investment, the nature of the operations of the entity, the net assets and the operating profit. IPA noted the disclosure requirements in AASB 12 *Disclosure of Interests in Other Entities* should be required.

(c) Information about the reporting framework, and whether GPFS or SPFS

PS7-EY suggested paragraphs 8 and 9 of AASB 1054 relating to the reporting framework the financial statements are prepared under and whether the financial statements are SPFS or GPFS should be made applicable for entities within the scope of ED 302. This would provide useful information and context to the disclosures that these entities would be providing in accordance with the proposed paragraphs 9C and 9D of AASB 1054. (EY note that this would be consistent with the current requirement applicable to NFP entities that are subject to paragraphs 9A and 9B of AASB 1054).

Staff analysis

While the suggested disclosures in (a) and (b) above 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. Staff also note these matters were previously considered as part of the feedback received on ED 293 and the Board decided against them as they were beyond the scope of the project that resulted in AASB 2019-4. Accordingly, staff consider matters relating to these disclosure deficiencies are beyond the narrow scope of this project and should therefore not be considered as a part of the ED 302 project.

In relation to suggested disclosure (c), staff note the similar disclosures in AASB 2019-4 apply only to NFP entities within the scope of AASB 1054, however the scope of the proposals in ED 302 captures entities not within the scope of AASB 1054 and therefore would only be required to prepare the proposed disclosures and not apply the whole standard. Staff consider paragraphs 8 and 9 of AASB 1054 are consistent with the objective of the proposals in ED 302 and help describe the basis of accounting. Staff also consider paragraphs 8 and 9 of AASB 1054 would provide contextually useful information at a minimal cost as this information is expected to be readily available to an entity. Staff further note that in order to disclose proposed paragraph 9A(a) "to disclose the basis on which the decision to prepare SPFS was made", the information in paragraphs 8 and 9 of AASB 1054 would need to be considered by the preparer.

Staff view

In relation to the suggested additional disclosures in (a) and (b) above regarding disclosure deficiencies: Staff recommend the Board not expand the scope of the ED 302 project to include them.

In relation to suggested disclosure (c): Staff recommend the disclosures required by paragraphs 8 and 9 of AASB 1054 be incorporated into the ED 302 proposals.

[See/return to other issues table](#)

SMC 3 Issue 2 – Entities should have the option to disclose ‘not assessed’, like NFP entities do

[See/return to Key Issue D](#)

PS2-PP disagreed with the justification in BC22 of ED 302 that the proposals should differ from the option NFP entities currently have through AASB 2019-4 to merely disclose they have not assessed compliance with certain AAS (including R&M) requirements. PP considers that ED 302 does not provide sufficient justification to depart from the concept of transaction neutrality, as NFPs will in many ways be comparable in size and sophistication to those for-profit private sector entities that are not preparing financial statements in accordance with laws or other legislation.

Staff analysis

There is merit in PS2-PP’s argument (ie to provide a ‘not-assessed’ option to FP entities of smaller size and sophistication), but to address it fully would lead to undue complexity in the financial reporting framework as it would entail distinguishing between ‘sophisticated’ and ‘unsophisticated’ in both the for-profit and NFP sectors. The approach proposed in ED 302 of requiring the same requirements for all entities within a sector having regard to the overall nature of that sector is consistent with the AASB’s transaction neutral principles. To specify differences within a sector that goes beyond the broad grounds already reflected in the accounting framework (being Tier 1 vs Tier 2; for-profit/NFP/public sector) would create undue complexity in the framework and entail the Board arbitrarily distinguishing between ‘large and sophisticated’ from ‘small and unsophisticated’ within for-profit or NFP.

Paragraph 25 of [The AASB’s For-Profit Entity Standard-Setting Framework](#) notes 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. The AASB’s Not-for-Profit Entity Standard-Setting Framework sets out circumstances where it may be appropriate to use a different approach.”

Paragraph 28(d) of [The AASB’s Not-for-Profit Entity Standard-Setting Framework](#) notes that a justifiable reason includes:

“undue cost or effort of preparing and disclosing information outweigh the benefits. For example, when there are existing legislative requirements for different but similar information for similar purposes (eg government finance statistics in the public sector), differences in resources available to NFP entities when implementing the requirements, mixed groups with both for-profit and NFP entities needing to amend accounting on consolidation, or the prevalence and magnitude of the transactions in the NFP sector mean the basis for the IASB’s considerations of undue cost or effort for for-profit entities is not valid for NFP”

As noted in paragraph BC24 of ED 302, the Board considered that different requirements between for-profit entities (with a non-legislative requirement to comply with AAS) and NFP entities is justifiable under the standard-setting framework on the basis that (see ED 302 BC21-BC22), compared with NFP entities:

- they typically have access to the resources necessary to make the required assessments (which for smaller entities would be expected to be straightforward) and if not, any costs

of acquiring that expertise would be reasonably expected to be outweighed by the benefits;

- whilst many for-profit entities might be small in size, they typically would not have overly complicated accounting requirements or transactions in that case, and the assessment would therefore not be complex; and
- it is expected they would have an understanding of the R&M requirements in AAS as part of good governance (because the directors choose the accounting policies).

Despite only one respondent raising this issue, staff considered whether there was merit in recommending the Board revisit the option, particularly in light of the recommended reduced scope (ie removing entities with a legislative reference to comply with AAS from the scope of the proposals) and a number of respondents questioning the cost/benefits of the proposals. Staff consider allowing a 'not assessed' option might be a means of responding to such cost/benefit concerns, whilst still providing potential very useful information that would put users 'on notice' that the financial statements might not apply all the R&M requirements in AAS. Staff also considered whether alternate options would be plausible, such as a requirement to make the disclosure unless the entity can justify that it would be impracticable to do so (similar to the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to the restatement of changes in accounting policies).

However, on balance, staff do not recommend any changes to the proposal on the following bases:

- only one respondent (PS2-PP) explicitly raised it as an issue;
- that respondent has not raised any arguments the Board did not fully consider during the development of ED 302. On that basis, staff do not identify any justification that would call into question the Board's previous discussion and decisions;
- consistent with responses to [SMC 1](#) and [GMC 12](#), staff do not expect the disclosure requirement to be onerous;
- staff have recommended the effective date be delayed by 12 months. In staff's view, this should provide entities with sufficient time to consider any possible complexities or challenges in making the disclosure; and
- different approaches staff considered would generally result in greater overall complexity to the financial reporting framework – such as creating differences or exceptions within sectors, which the Board has had a preference to avoid in other aspects of the project (such as the scope – see [SMC 2 Issue 4](#)).

Staff view

Staff do not recommend adopting this suggestion. However, consideration should be given to expanding the basis for conclusions to explain why the Board does not think it would be appropriate to extend the relief.

[See/return to Key Issue D](#)

SMC 3 Issue 3 – APES 205 requirements are sufficient, therefore ED 302 is not needed

[See/return to Key Issue A\(iii\)](#)

PB6-APESB is of the view that members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of SPFS are already required to take reasonable steps to ensure that the report clearly identifies the information in disclosures 9C(a)-9C(d). In particular:

- Paragraphs 6.1(a) and (b) of APES 205 require the report clearly identifies that the financial statements are SPFS and the purpose for which the SPFS have been prepared (except where the SPFS are solely for internal purposes).
- Paragraph 6.1(c) of APES 205 requires that the report clearly identifies the significant accounting policies adopted in the preparation and presentation of the SPFS (except where the SPFS are solely for internal purposes).

PB12-IPA raised concerns with the usefulness of the current iteration of APES 205. It recommended AASB and the APESB liaise to update APES 205 in the light of ED 302.

Staff analysis

When developing ED 293 the Board acknowledged there may be a large number of NFP entities preparing SPFS that have a non-legislative requirement to comply with AAS and discussed whether it may be possible for the APESB to make a similar amendment to APES 205 *Conformity with Accounting Standards* (October 2015) as these entities were not captured by ED 293. This was on the basis a significant number of the entities with a non-legislative requirement to comply with AAS were expected to be caught by APES 205¹⁹ and the Board was of the view that while these APES 205 disclosures provide information about an entity's accounting policies, they would not necessarily provide users with sufficient information about an entity's compliance with all the R&M requirements in AAS.

APESB ultimately decided no changes were to be made to APES 205. However, APESB did consider it an important issue to seek stakeholder views on. Accordingly, the Explanatory Memorandum to [Exposure Draft 03/19 Proposed revisions to APESB Pronouncements](#) included commentary on this matter and sought specific feedback from their stakeholders. After considering this feedback, the APESB decided not to amend APES 205.

Staff are not aware of any new information that would warrant the Board to depart from its view for for-profit entities reflected in ED 302.

Staff view

Staff recommend proceeding as proposed on this issue. Depending on the outcome of ED 302, staff suggest the AASB write to the APESB informing it of its decision so that APESB can decide whether to consider whether the AASB's latest decision would have any implications for APESB's standards, including APES 205.

[See/return to Key Issue A\(iii\)](#)

SMC 3 Issue 4 – Concerns about paragraphs 9C(e) and 9C(f)

[See/return to other issues table](#)

Concern about the meaning of the terminology used

While PS10-FRS agreed that divergence from R&M should be required to be disclosed, the requirement in 9C(e) to disclose 'an indication' of how the financial statements do not comply is unclear. There could be confusion in the application of such wording. More explanation is required as to what the objective to be achieved is.

¹⁹ APES 205 applies to members, where a member is defined as "a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body". APES 205 is therefore applicable, to and mandatory for, accounting professionals who are members of CPA Australia, Chartered Accountants Australia and New Zealand or the Institute of Public Accountants.

PS10-FRS was concerned with 9C(f)'s lack of precision and consequential interpretative discretion with respect to the requirement to arrive at a conclusion as to whether the financial statements 'overall' are compliant with accounting standards. They noted there is no definition or term of reference as to how the word 'overall' should be interpreted within accounting standards.

Concern that 9C(f) is redundant given 9C(e)

PS7-EY considered "that the requirement in (e) [9C(f)] above is redundant given the disclosures proposed in (d) [9C(e)]. Perhaps, the disclosures in (e) [9C(f)] should only be required for those financial statements that do comply overall since anything else is a matter for the entity and its users to agree."

Concern about implications for joint operations

PB12-IPA considered 9C(f) should include AASB 11 *Joint Arrangements* in the list of excluded requirements because AASB 11 includes R&M requirements for joint operations i.e. proportionate share of assets and liabilities based on rights and obligations ('proportionate consolidation').

Staff analysis

Terminology

In relation to 9C(e)'s use of the term 'indication' of non-compliance, the Board considered this in the development of AASB 2019-4 (as noted in paragraph BC34 of that standard) and decided to express a broad principle (i.e. an indication of where the non-compliance exists) rather than take a more prescriptive approach (e.g. a description of the extent of non-compliance). This was because, in the Board's view, the Implementation Guidance and Illustrative Examples provides sufficient guidance for preparers to understand the nature of the information that is to be disclosed.

Staff note the same term has been applied by NFP entities within the scope of AASB 2019-4 and we are not aware of practice implementation issues.

In relation to ED 302's paragraph 9C(f), staff can see how some might regard the phrase "overall comply with all" somewhat tautological. Therefore, staff considered whether dropping the term 'overall' for both for-profit and NFP entities would provide a solution to this issue. However, we note practice implementation issues in the NFP sector in relation to that phrase have not been brought to our attention, and we expect an entity would be reasonably able to determine the term 'overall' refers to compliance, overall, with R&M requirements. Therefore, on balance, staff do not recommend amending the proposals in response to this issue. It is apparent NFP entities can cope with the same phrase (as used in AASB 2019-4), and to make an amendment to it could lead to confusion if preparers were to conclude the amendment signalled a change to the resultant disclosure). However, it might be an issue that could be considered as part of the future post-implementation review.

Redundant 9C(f)

In relation to whether 9C(f) is redundant given 9C(e), staff note that, like AASB 2019-4, ED 302 follows the two-step approach ((e) and then (f)) to assessing and disclosing compliance or otherwise with the R&M requirements in AAS. This approach was intended to minimise the burden associated with preparing the new disclosures by first asking entities to consider whether or not their significant accounting policies comply with R&M requirements, and therefore whether the financial statements overall comply with R&M requirements. If all material accounting policies comply with R&M requirements, there is no disclosure to make under 9C(e), which is why 9C(f) is useful as a way to make clear to users the financial statements do in fact comply with all R&M requirements. While staff note that AAS usually only require an entity to disclose where they have not complied with AAS requirements, in this case, requiring an entity to disclose they have complied is useful for users and is not an onerous requirement. Further, without paragraph 9C(f), if an entity has one or more instances of non-compliance with R&M requirements, without

disclosing overall non-compliance (e.g. paragraph 9C(f)), it may not be readily evident to users that this is the case.

Joint operations

In relation to the question of whether joint operations within the scope of AASB 11 should be 'excluded' (in the same way as AASB 10 and AASB 128) from the disclosure of overall compliance with R&M, amendment to the proposals is not required and nor would it be appropriate. This is because, AASB 11 (paragraph 20) requires a joint operator, being the entity preparing the financial statements (whether consolidated or unconsolidated), to **recognise** (emphasis added) its share of the assets, liabilities, revenue and expenses. Paragraph 21 also clarifies that R&M of the share of those amounts are accounted for in accordance with the requirements (including R&M) of other relevant accounting standards. The definition of a joint operation also confirms this, on the basis that it refers to the entity's rights and obligations to the assets and liabilities. Non-compliance with AASB 11 as it applies to joint operations would be a clear non-compliance with R&M.

Staff note the Board has intentionally not published a position on whether or not consolidation and equity accounting is or is not R&M, acknowledging there are mixed views in practice (paragraph BC53 of AASB 2019-4). Given the nature of joint operations and their accounting treatment, they are fundamentally different from consolidation and equity accounting issues, and as such it would be unhelpful (and even misleading/confusing) to delineate them from the overall R&M disclosure, potentially implying they are not R&M requirements. We also note that, as currently drafted, paragraphs 9C(e) and 9C(f) are consistent with paragraph 9C(d), which also does not refer to AASB 11.

Staff consider if the Board were to react to these concerns regarding the redundancy of paragraph 9C(f) and joint operations, it would lead to a different direction being taken to those made for NFP entities within the scope of AASB 2019-4, and could lead to confusion about the R&M nature of the accounting for joint operations. No new information has been brought to staffs' attention to warrant the Board considering such a departure.

Staff view

In relation to the concerns noted above: staff recommend proceeding as proposed in ED 302. However, for completeness, it might be helpful to include in the basis for conclusions an explanation for its decision on joint operations.

[See/return to other issues table](#)

SMC 3 Issue 5 – Definition of 'interest' and 'subsidiary'

[See/return to remaining issues table](#)

PS9-GT recommended that explicit reference to the definitions of 'interest' and 'subsidiary' be included by cross-reference to the relevant accounting standard – for example, by reference to AASB 10 from within the amended AASB 1054, similar to AASB 1048.

Staff analysis

Staff consider it is clear these terms are used as defined in AAS, particularly as there are references to the relevant AAS in the disclosure paragraphs. Staff also note similar paragraphs are already required for NFP entities within the scope of AASB 2019-4 and there have been no practice implementation issues identified in relation to this issue that would warrant the Board including these references.

Staff view

Staff recommend proceeding as proposed on this issue.

[See/return to other issues table](#)

SMC 4 APPROPRIATENESS OF GUIDANCE AND EXAMPLES

The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	2 (PS1-PwC, PS9-GT)	3 (PS3-KPMG, PS7-EY, PS10-FRS)			2 (PS2-PP, PS4-Nexia)	7
Professional body		1 (PB12-IPA ²⁰)	2 (PB8-CA/CPA ²¹ , PB11-ASPFE0 ²²)		2 (PB5-AICD, PB6-APESB)	5

SMC 4 Issue 1 – Risk of boilerplate disclosures

[See/return to remaining issues table](#)

PS3-KPMG supported the implementation guidance and illustrative examples, notwithstanding some potential for them to encourage boilerplate disclosures.

Staff analysis

The guidance and examples are designed to assist in the implementation of the requirements having regard to the existing variation and diversity in compliance with all the R&M requirements in AAS in SPFS currently seen in practice as identified through AASB research. The approach also leaves discretion for entities to determine how best to make the disclosures having regard to their particular circumstances and the needs of their users.

Staff note the implementation guidance and illustrative examples illustrate aspects of the proposals but explicitly state they are not intended to provide interpretative guidance.

Staff view

Staff recommend proceeding as proposed in ED 302 on this issue.

[See/return to remaining issues table](#)

²⁰ IPA’s comments on SMC 4 relate to the challenges that will arise for professional accountants and auditors in the absence of any guidance for entities outside of the scope of ED 302. They are addressed under SMC 2 Issue 7 (Guidance needed on SPFS outside scope of ED 302) rather than here.

²¹ CA/CPA’s comments on SMC 4 relate to insufficient evidence to support the disclosures. They are addressed under SMC 1 Issue 1 (Insufficient evidence supporting the an increase of transparency and comparability) rather than here.

²² ASPFEO strongly support the submission by CA/CPA and have therefore been categorised in the same way.

SMC 4 Issue 2 – Examples should make it clearer that, in the scenarios illustrated, the SPFS are required to comply with AAS

[See/return to other issues table](#)

PS7-EY suggested example 2 and similarly examples 3 and 4 should clarify that the financial agreement with the bank requires preparation of financial statements that comply with AAS. Otherwise the entity would not be within the proposed scope of AASB 1054 to provide the disclosures.

Staff analysis

Given the context of these examples, staff do not consider this a significant issue but acknowledge the suggestion would help clarify that accounting standards would apply where the financing agreement/trust deed requires compliance with AAS.

Staff view

Staff recommend including this clarification in examples 2, 3 and 4.

[See/return to other issues table](#)

SMC 4 Issue 3 – Inadequate illustration of paragraph 9C(f)

[See/return to remaining issues table](#)

PS10-FRS considered the guidance and examples don't sufficiently illustrate the disclosure required by paragraph 9C(f). They also noted there is no example of an entity that has a statement that indicates there is or isn't 'overall compliance'.

Staff analysis

The examples in the table under IG31 mention the following:

Example 1 "These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards"

Example 2 "MNO Pty Ltd's separate special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards"

Example 3 "These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards"

Example 4 "These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards"

Despite the fact the illustrative examples do not use the phrase 'overall compliance', each of the four examples state explicitly the illustrated entity's financial statements either comply or do not comply with all the R&M requirements in AAS, and therefore sufficiently illustrate the disclosures required by paragraph 9C(f).

Irrespective of whether the Board agrees with the staff recommendation in [SMC 3 Issue 4](#), (ie to remove the term 'overall' from paragraph 9C(f)), we think the examples appropriately illustrate the requirement of paragraph 9C(f).

Staff view

Staff recommend the Board proceed as proposed in ED 302 on this issue.

[See/return to remaining issues table](#)

SMC 4 Issue 4 – The 6th row of the table in IG29 is confusing

[See/return to other issues table](#)

PS10-FRS found the sixth scenario ‘Material accounting policies comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)’ in IG29 confusing as it refers to Example 1, which illustrates an entity that has adopted AASB 10 and AASB 128.

Staff analysis

Row 6: *Material accounting policies comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)*

Row 7: *Financial statements overall comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)*

Staff note the sixth (and indeed the seventh) scenario is not intending to illustrate that AASB 10 and AASB 128 have not been complied with, rather it illustrates that AASB 10 and AASB 128 are subject to separate disclosure requirements.

However, staff acknowledge the text in the brackets could imply an entity does not consolidate or equity account when it in fact does.

Staff view

To help clarify the scenario(s), staff suggest removing the text in the brackets that states “(except for AASB 10 or AASB 128)”. In lieu of that text, staff recommend adding a footnote at the end of the description of rows 6 and 7 along the lines of “this statement refers to when an entity complies with all the recognition and measurements requirements in Australian Accounting Standards, except for requirements set out in AASB 10 and AASB 128 (see paragraph 9C(e)/(f)). The extent to which an entity has applied the requirements set out in AASB 10 and AASB 128 is disclosed separately in accordance with paragraph 9C(d), and illustrated above”.

[See/return to other issues table](#)

SMC 5 EFFECTIVE DATE

Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 (with early adoption permitted)? If not, please explain why.

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	2 (PS1-PwC, PS7-EY)	2 (PS9-GT ²³ , PS10-FRS*)	3 (PS2-PP, PS3-KPMG, PS4-Nexia)			7
Professional body	1 (PB12-IPA)	1 (PB6-APESB*)	3 (PB5-AICD ²⁴ , PB8-CA/CPA, PB11-ASPFEO ²⁵)			5
Do you agree with the effective date?						
Webinar polling results	11 (Yes)		10 (No)	3 (Unsure)	12 (Did not respond)	

*Respondents PS10-FRS & PB6-APESB expressed views under the heading SMC 5 along the lines that the proposals should never become operative for certain entities – see SMC 2. These two respondents did not express disagreement with the proposed operative date for those entities they agreed should be included within scope.

SMC 5 Issue 1 – The operative date should be delayed

[See/return to Key Issue C](#)

Due to the interrelationship between the scope of the proposals and the proposed operative date, a number of respondents commented on SMC 2 (re scope) and SMC 5 (re operative date) in complementary ways. For example, some respondents argued the operative date should be deferred by one year in order to scope certain entities out. To avoid repetition within this collation, we've collected and addressed all comments effectively related to scope within SMC 2 and limited SMC 5 mainly to a discussion of operative dates for those types of entities respondents agreed should be included within scope. As a consequence, if the staff view on SMC 2 is accepted, the operative date for entities with a legislative requirement to comply with AAS or accounting standards becomes moot and is therefore not discussed further.

PS2-PP noted that whilst in some cases determining whether an entity is adopting the R&M requirements of AAS is straightforward (e.g. in relation to accounting for leases), in other cases it may not be straightforward and may involve extensive review of contractual arrangements (e.g. accounting for revenue from customer contracts). They argue the proposed operative date is too soon.

²³ GT's comments relate to entities within the scope of AASB 2020-2. Refer to SMC 2 Issue 1.

²⁴ AICD's comments relate to entities within the scope of AASB 2020-2. Refer to SMC 2 Issue 1.

²⁵ ASPFEO strongly support the submission by CA/CPA and therefore it's view on SMC 5 is categorised in the same way

Three respondents (PS3-KPMG, PS4-Nexia, PB8-CA/CPA) questioned whether entities applying the requirements will have sufficient time to consider and apply the proposed amendments, noting the impact of COVID-19 on resources.

Staff analysis

The Board noted in BC22 of ED 302 that for-profit entities would typically be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the R&M requirements in AAS as part of their good governance approach. Furthermore, the Board considered that because many of these entities are small in size, they typically would not have overly complicated accounting requirements or transactions, and therefore the R&M compliance assessment would not be complex.

However, staff have heard anecdotally that some issues faced by small entities might be more complex than originally thought. Since ED 302 was issued, staff have been made aware that in some instances, for example, when applying AASB 15 *Revenue from Contracts with Customers* or AASB 119 *Employee benefits*, it may be difficult for smaller entities to determine whether they are complying with the R&M requirements in AAS, such as an entity trying to calculate employee benefits correctly (e.g. long service leave) when they have staff with long tenure.

Staff consider deferring the operative date by 12 months (with early adoption allowed) should give these entities enough time to prepare for the implementation of the proposals and it would also be a way for the Board to address the fact that (as noted in [SMC 2 Issue 1](#)) the economic impact of COVID-19 has been significant, is ongoing, and could not have been predicted when issuing ED 302.

Staff view

Staff recommend the effective date of the proposals in ED 302 be delayed to apply to periods ending on or after 30 June 2022²⁶ with early adoption allowed (which would coincide with AASB 2020-2).

[See/return to Key Issue C](#)

SMC 5 Issue 2 – Inconsistent with the AASB Due Process Framework

[See/return to Key Issue C](#)

Three respondents (PS2-PP, PS3-KPMG, PB8-CA/CPA) noted the proposed application date is approximately 6 months after the amendment is due to be issued, which is inconsistent with the AASB's Due Process Framework.

Staff analysis

Paragraph 7.9.2 of the *AASB Due Process Framework* states in relation to the determination of the effective date of Standards that “the AASB seeks to ensure stakeholders have adequate time to prepare for their implementation. Typically, the AASB will issue a Standard with at least 2 years before its effective date (e.g. a year before the beginning of the comparative reporting period) and generally permits entities to apply those requirements early should they wish to do so.”

²⁶ However, for consistency with most other standards, staff recommend the effective date in the final standard be re-expressed as periods **beginning** (emphasis added – rather than ending) on or after 1 July 2021. ED 302 was proposed as **ending** (emphasis added) on or after to make the compilation process simpler, given the year of implementation would have already begun.

In developing ED 302, as noted in paragraph BC27, the Board confirmed that the proposed amendments would not require an entity to change its existing accounting policies and therefore the information required to be disclosed would be based on an entity's existing accounting policies and financial reporting practices. Accordingly, it should not be necessary to provide an extended operative date.

As such, the Board decided to propose that the amendments should be effective for annual periods ending on or after 30 June 2021. However, earlier voluntary disclosure would be allowed, and encouraged.

Staff also note that AASB 2019-4, which required similar disclosures for NFP entities, was issued within one year of the effective date.

Staff view

Should the Board agree with staffs' recommendation to [Issue 1](#) immediately above, staff are of the view the revised effective date would provide adequate time, even within a COVID-19 environment, for stakeholders to prepare for implementation.

[See/return to Key Issue C](#)

SMC 6 DON'T REQUIRE DISCLOSURE OF THE FACT THERE ARE NO SUBSIDIARIES, OR INVESTMENTS IN ASSOCIATES OR JVs

Do you agree that 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? If not, please provide your reasons.

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	4 (PS1-PwC, PS3-KPMG, PS7-EY, PS10-FRS)		1 (PS9-GT)		2 (PS2-PP, PS4-Nexia)	7
Professional body	2 (PB6-APESB, PB12-IPA)				3 (PB5-AICD, PB8-CA/CPA ²⁷ , PB11-ASPFE0)	5

SMC 6 Issue 1 – There is a risk financial statements would otherwise be prepared with undisclosed subsidiaries or investments in associates or joint ventures

[See/return to other issues table](#)

²⁷ CA/CPA's overall response to ED 302 was fundamental disagreement with all the proposals in ED 302. Within that context, their specific response to SMC 6 would not help inform the Board on how best to proceed with the particular issues addressed in SMC 6. Therefore, they have been classified as 'no comment' for the purpose of this collation.

PS9-GT was concerned that “due to the application of judgement and differing concepts of materiality to individual preparers of financial statements, there is potential that financial statements will be prepared with undisclosed subsidiaries, investments in associates, or investments in joint ventures.” PS9-GT suggested “An explicit statement will assist in demonstrating that such disclosure is presumed to be material.”

Staff analysis

Staff note that, in developing similar disclosures for NFP entities in AASB 2019-4, the Board considered whether an explicit statement that an entity does not have subsidiaries, or investments in associates or joint ventures should be required. The Board noted entities preparing either Tier 1 or Tier 2 GPFS are not required to make these statements and, consistent with that, an explicit statement in NFP SPFS also should not be required (paragraph BC30 of AASB 2019-4).

Furthermore, the rationale provided by PS9-GT for requiring an explicit statement to be included (ie to effectively deem information to be material) is inconsistent with principle-based standard setting.

AASB Standards provide the underlying principle of materiality, the modification of which is outside the scope of this project, and concerns around the incorrect application of the term is an issue of enforcement and not within the remit of the AASB.

In any event, arguably users of financial statements could reasonably be expected to be able to readily discern from the absence of other proposed disclosures (eg proposed paragraph 9C(d), which only results in its disclosures ‘where the entity has interests in other entities’) that the entity has no subsidiaries or interests in associates or joint ventures.

Staff view

An explicit statement of the absence of subsidiaries or investments in associates or joint ventures is not necessary and therefore the proposal that is the subject of SMC 6 should be retained. The rationale for that decision (based on the above staff analysis) should be included in the accompanying basis for conclusions.

[See/return to other issues table](#)

SMC 7 OTHER COMMENTS ON ED302 PROPOSALS

Do you have any other comments on the proposals?

No 'other' comments were made on the proposals. However, some comments were made that did not pertain to the proposals. For completeness, they are captured in Appendix B of this collation under the heading 'Concerns outside the scope of ED 302'.

GMC 8 CONSISTENCY WITH THE STANDARD-SETTING FRAMEWORK

Whether the AASB's For-Profit Entity Standard-Setting Framework has been applied appropriately in developing the proposals in this Exposure Draft?

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	3 (PS1-PwC, PS3-KPMG, PS7-EY)		3 (PS2-PP ²⁸ , PS9-GT, PS10-FRS)		1 (PS4-Nexia)	7
Professional body			4 (PB6-APESB, PB8-CA/CPA, PB12-IPA ²⁹ , PB11-ASPFE0 ³⁰)		1 (PS5-AICD)	5

See/return to other issues table

SMC 8 Issue 1 – The Framework explicitly states AASB does not set standards for SPFS

Four respondents (PB6-APESB, PB8-CA/CPA, PS9-GT, PS10-FRS) noted paragraph 12 of the AASB's *For-Profit Entity Standard-Setting Framework* (AASB For-Profit Framework) states the AASB does not set standards for SPFS, which is contrary to what is proposed in ED 302.

Only three of these respondents used the argument against the proposals. The fourth respondent, FRS, added that they believe, subject to their qualifications (noted in other SMCs above), amending the requirements for SPFS is appropriate.

Staff response

The AASB's *For-Profit Entity Standard-Setting Framework* is designed to be used as a basis for the AASB to assess the appropriateness of IFRS Standards in the Australian context and consider

²⁸ PP's response is that denying the 'not assessed' option to for-profit entities is inconsistent with transaction neutrality and therefore the AASB's standard-setting framework. This issue is addressed in SMC 3 Issue 2 above rather than here.

²⁹ IPA's response argues that grandfathering SPFS of certain entities is inconsistent with the AASB's standard-setting framework. This issue is address in Appendix B Issue 1 below rather than here.

³⁰ ASPFEO strongly support the submission by CA/CPA and therefore it's view on this SMC is categorised in the same way.

making modifications to IFRS Standards for for-profit entities (as well as Australian-specific standards).

Staff confirm both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework* state the Board does not currently set standards for SPFS because such financial statements should only be prepared where users can tailor them to their own information needs, and therefore do not need a standard-setter or regulator to require the information on their behalf.

Despite this, as noted in paragraph BC40 of AASB 2019-4, the Board decided the similar requirements for NFP entities were consistent with the Frameworks because, "as part of moving legacy regulations out of legislation and into Australian Accounting Standards ..." ³¹, AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054 apply to SPFS. The Board considered that this, especially the requirement in paragraph 9 of AASB 1054 ³², together with the needs of users, provided a sufficient basis for requiring the disclosures in SPFS proposed in ED 293 for NFP entities. The Board was particularly concerned a significant number of SPFS do not provide adequate disclosures to enable a user to determine whether additional information is needed.

Staff acknowledge the scope of this ED 302 project, if the Board agrees with the staff recommendations in [SMC 2](#), would include only entities without a legislative requirement to comply with AAS in SPFS, which are not necessarily required to apply AASB 1054 in the same way ACNC-registered entities and entities within the scope of the Corporations Act are. Accordingly, staff acknowledge the Board's assessment of the appropriateness of the justifications noted for AASB 2019-4 above might be less apparent for entities within the (revised) scope of this project.

However, staff consider the proposed ED 302 requirements are still justifiable under the Framework on the basis that: it is arguable whether requiring entities to disclose information about their accounting policies (which the entity is still able to determine itself) is indeed 'setting standards' as that term is used in the Framework. Staff consider that 'setting standards', particularly in the context of the Framework, would appear more akin to specifying R&M requirements, or specific financial disclosures, which ED 302 is not proposing to do.

Staff view

Staff recommend the Board proceed with the proposals in relation to GMC 8, and include a rationale (based on the above staff analysis) in the accompanying basis for conclusions.

[See/return to other issues table](#)

³¹ Paragraph 14 of both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework*.

³² Paragraph 9 of AASB 1054 requires an entity to disclose whether the financial statements are general purpose financial statements or special purpose financial statements.

GMC 9 REGULATORY OR OTHER ISSUES

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

Respondent	No	Yes	No comments	Total
Professional services	2 (PS3-KPMG, PS7-EY)	1 (PS10-FRS)	4 (PS1-PwC, PS2-PP, PS4-Nexia, PS9-GT)	7
Professional body	2 (PB8-CA/CPA, PB11-ASPFE ³³ , PB12-IPA)	1 (PB6-APESB ³⁴)	2 (PB5-AICD)	5

[See/return to Key Issue A\(ii\)](#)

GMC 9 Issue 1 – Impact on entities that have not had to react to accounting changes before

PS10-FRS noted that, for entities that will continue to produce SPFS after the proposals and are within the scope of the proposed amendments to AASB 1057 and AASB 1054, many will be required to implement change to the disclosures within financial statements for the first time. FRS expressed the belief the Board should be cognisant that this change may impact an audience who have not in the past had to react to accounting standard changes. There may be limited understanding and awareness of these proposals amongst certain professional demographics to the point where such changes to accounting standards will not be identified and implemented.

Staff analysis

Staff acknowledge the concern raised by FRS and consider education materials prepared by AASB staff on the final amendments will be important. Staff also intend to work with the professional bodies, relevant regulators and interested stakeholders to help ensure the proposals are communicated effectively and any potential effects are known and can be planned for.

Staff view

Education and communication will be important in implementing any requirements that result from this project.

[See/return to Key Issue A\(ii\)](#)

³³ ASPFEO strongly support the submission by CA/CPA and therefore it's view on this SMC is categorised in the same way.

³⁴ APESB's comment relates to enforcement and the absence of a regulator like ASIC for the types of entities that would be subject to the proposals. This is discussed in SMC 2 Issue 3 above rather than here.

GMC 10 AUDITING OR ASSURANCE ISSUES

Whether the proposals create any auditing or assurance challenges?

Respondent	No	Yes	No comments	Total
Professional services	2 (PS3-KPMG, PS7-EY)	2 (PS9-GT, PS10-FRS ³⁵)	3 (PS1-PwC, PS2-PP, PS4-Nexia)	7
Professional body	1 (PB12-IPA)	3 (PB6-APESB ³⁶ , PB8-CA/CPA ³⁷ , PB11-ASPFE ³⁸)	1 (PB5-AICD)	5

[See/return to Key Issue A\(ii\)](#)

GMC 10 Issue 1 - Potential challenges for smaller audit firms

PS9-GT suggested specific audit challenges will arise in ensuring completeness of disclosures where management have limited experience in the application of standards such as AASB 10 *Consolidated Financial Statements*. They also noted there are potential challenges for smaller firms where the depth of technical knowledge may be relatively low; the Australian corporate framework, particularly the use of non-corporate entities such as trusts, results in significant increases in the relative complexity of identifying controlled entities.

Staff analysis

As noted above in GMC 9, staff consider education materials prepared by AASB staff on the final amendments will be important. Staff acknowledge education is crucial and intend to work with the professional bodies, relevant regulators and interested stakeholders to help ensure the proposals are communicated effectively and any potential effects are known and can be planned for.

Staff view

Education and communication will be important in implementing the proposals.

[See/return to Key Issue A\(ii\)](#)

³⁵ FRS's comments under GMC 10 relate to the fact the additional disclosures would increase the costs of the audit. This is discussed in GMC 13 Issue 1 (cost/benefit analysis) rather than here.

³⁶ APESB's comments under GMC 10 relate to the fact the additional disclosures would increase the costs of the audit. This is discussed in GMC 13 Issue 1 (cost/benefit analysis) rather than here.

³⁷ CA/CPA's comments under GMC 10 relate to the additional burden for auditors already affected by COVID-19 and AASB 2020-2. This is discussed in GMC 13 Issue 1 (cost/benefit analysis) rather than here.

³⁸ ASPFEO strongly support the submission by CA/CPA and therefore is categorised in the same way.

GMC 11 USEFULNESS TO USERS

Whether, overall, the proposals would result in SPFS that would be more useful to users?

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	4 (PS1-PwC, PS3-KPMG, PS7-EY, PS9-GT)	1 (PS10-FRS ³⁹)	1 (PS4-Nexia ⁴⁰)		1 (PS2-PP)	7
Professional body	1 (PB12-IPA)		3 (PB6-APESB ⁴¹ , PB8-CA/CPA ⁴² , PB11-ASPFE0 ⁴³)		1 (PB5-ACID)	5

As noted in the footnotes to this table, the comments respondents made under GMC 11 were regarded by us as more pertinent to other SMCs/GMCs for the purposes of this collation and have been relocated to there.

As noted earlier in this collation, there is an obvious close relationship between SMC 1 (will the particular proposals lead to greater transparency and comparability of SPFS?) and GMC 11 (will the proposals overall lead to more useful information?). However, the comments made by some respondents under the respective matters for comment could be perceived as inconsistent to some extent and staff have identified and explained this in footnotes.

³⁹ FRS agreed the proposals would result in SPFS that are more useful for users, except for those within the scope of AASB 2020-2. This is discussed in SMC 2 Issue 1 (the scope of the proposals) rather than here.

⁴⁰ Nexia disagreed the proposals would result in SPFS that are more useful to users as the proposals add additional cost for no discernible benefit. This is captured further in GMC 13 Issue 1 (cost/benefit analysis) below.

⁴¹ APESB’s comment under GMC 11 states “APESB is of the view that, generally, the larger and more complex an entity is, there is a greater likelihood of external users of the SPFS. If users are reliant on the additional disclosures proposed in ED 302, then they may be warranted. However, the AASB has not provided any research evidence in ED 302 of the number and breakdown of entities affected by the proposals, the likely users and their needs or that APES 205 requirements are deficient. As such, APESB makes no comment on whether the proposals would result in SPFS that would be more useful for users.” Therefore, despite it saying it “makes no comment” on GMC 11, we did not think it appropriate to categorise it as ‘no comment’ in the collation table. Therefore, for consistency with SMC 1, staff have classified APESB as ‘disagree’ (although see our footnote explanation for categorising its views on SMC 1 as ‘disagree’ above).

⁴² CA/CPA’s disagreed that the proposals would result in useful information overall. Their reasons are captured in appropriate places throughout this collation.

⁴³ ASPFE0 strongly support the submission by CA/CPA and therefore, their views have been categorised in the same way in this SMC.

GMC 12 Whether the proposals are in the best interests of the Australian economy?

Respondent	Agree	Agree with comments	Disagree	Unclear	No comments	Total
Professional services	3 (PS1-PwC, PS3-KPMG, PS7-EY)	1 (PS10-FRS ⁴⁴)	1 (PS4-Nexia ⁴⁵)		2 (PS2-PP, PS9-GT)	
Professional body			3 (PB6-APESB ⁴⁶ , PB8-CA/CPA ⁴⁷ , PB12-IPA ⁴⁸ , PB11-ASPFEO ⁴⁹)		1 (PB5-AICD)	

As noted in the footnotes to this table, the comments respondents made under GMC 12 were regarded by us as more pertinent to other SMCs/GMCs for the purposes of this collation and have been relocated to there. Accordingly, it is not necessary to analyse GMC 12 separately here.

⁴⁴ FRS’s comments under GMC 12 relate to the proposals not being in the best interest of entities within the scope of AASB 2020-2. This is discussed in SMC 1 Issue 1 (whether the proposals improve transparency and comparability of SPFS) rather than here.

⁴⁵ Nexia’s comments under GMC 12 relate to costs of the proposals outweighing any perceived benefits. This is discussed in GMC 13 Issue 1 (cost/benefit analysis) rather than here.

⁴⁶ APESB’s comments under GMC 12 relate to insufficient evidence backing up the proposals. This is discussed in SMC 1 Issue 1 (whether the proposals improve transparency and comparability of SPFS) rather than here.

⁴⁷ CA/CPA disagreed for general reasons previously stated throughout their submission.

⁴⁸ IPA’s response to GMC 12 argues the proposals are not in the best interest of the Australian economy without a sunset clause for certain entities. This issue is addressed in Appendix B Issue 1 rather than here.

⁴⁹ ASPFEO strongly support the submission by CA/CPA and therefore its response is categorised in the same way.

GMC 13 COSTS VS BENEFITS

Unless already provided in response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Respondent	Provided information	No comment	Total
Professional services	5 (PS3-KPMG, PS2-PP, PS4-Nexia, PS9-GT, PS10-FRS)	2 (PS1-PwC, PS7-EY)	7
Professional body	3 (PB6-APESB, PB8-CA/CPA, PB11-ASPFE ⁵⁰)	2 (PB5-AICD, PB12-IPA)	5

Although GMC 13 only asks for costs and benefits not identified elsewhere, for convenience we’ve collected all comments made by respondents to ED 302 about costs and benefits together here. Where they repeat earlier comments captured under other SMCs/GMCs in this collation, cross-references have been provided.

[See/return to Key Issue A\(ii\)](#)

GMC 13 Issue 1 – Costs and Benefits

From a macro perspective, PB6-APESB comments there may be somewhere between 300,000 to 1,000,000 affected entities (possibly more). The annual costs of the disclosures may vary depending on the complexity of the entity and its transactions. If the additional minimum annual costs were between \$300 and \$500 per entity, the overall regulatory impost of the proposals could range from \$90m to \$500m per annum. (Staff note this is presumably based on the initial proposed scope of ED 302, and would be considerably less if the Board agrees with staffs’ recommendation in SMC 2 to exclude from scope entities required by legislation to comply with AAS or accounting standards.)

PB6-APESB, PB8-CA/CPA, PS10-FRS comment affected entities will incur additional audit costs, but do not quantify them.

PS4-Nexia, PB8-CA/CPA comment the proposals overall are not necessary as they provide no financial benefits for preparers and would add additional cost for no discernible benefit. (Again, the ‘additional cost’ is not quantified)

APESB says additional preparation costs cannot be justified for entities with either no external users, or external users that can demand specific reports or disclosures, including the proposed additional information, on an ad hoc basis.

Previously discussed in this paper Cost vs. Benefits discussions

[SMC 2, Issue 1](#) (Entities within the scope of AASB 2020-2 should be excluded): six respondents (PS-PP, PS3-KPMG, PB5-AICD, PB6-APESB, PB8-CA/CPA, PS10-FRS) were concerned the costs of the proposals would outweigh the benefits for those entities within the scope of AASB 2020-2, as the

⁵⁰ ASPFEO strongly support the submission by CA/CPA.

requirements would only apply for one year. (However, if the Board accepts the staff view expressed on SMC 2 Issue 1, this matter doesn't warrant further consideration.)

[SMC 2, Issue 2](#) (The very nature of SPFS render the proposals redundant): four respondents (PS2-PP, PB5-AICD, PB6-APESB, PB8-CA/CPA) were concerned with the benefits of the proposals for entities with a non-legislative requirement to comply with AAS as these entities prepare accounts for specific users, have no external regulator and the financial statements are not lodged on the public record.

Effects of COVID-19 (as noted in [SMC 2 Issue 1](#) and [SMC 5 Issue 1](#)): Three respondents (PS3-KPMG, PS4-Nexia, PB8-CA/CPA) raised concerns regarding the impact of COVID-19 on resources.

Staff analysis

No respondents provided firm estimates of preparation costs, although some indicative comments were made.

In relation to costs for preparers, as noted in paragraph BC22 of ED 302, the Board took the view for-profit entities within the scope of the proposals would typically be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the R&M requirements in AAS as a matter of good governance. Therefore, any additional costs would not be expected to be significant and would be expected to reduce after first time adoption of the proposals.

Staff do not consider requiring an entity to disclose its material accounting policies is onerous as it is information that is already known to the entity (and is needed to facilitate the audit of the financial statements)⁵¹, and staff stress the proposals would not require the entity to make any changes to its R&M policies.

The proposed disclosures in ED 302 would provide users of SPFS with financial statements that are more transparent/comparable and useful (see [SMC 1](#) and [GMC 11](#)), while only imposing minimal cost increases on preparers (in comparison with requiring the preparation of GPFS, for example).

None of the respondent comments referred to above provide fundamentally new information that the Board was not already broadly aware of at the time it issued ED 302.

Staff view

The feedback received does not bring new information (with the possible exception of COVID-19, which is discussed in [SMC 2 Issue 1](#) and [SMC 5 Issue 1](#)) that would cause staff to recommend the Board not proceed with the proposals in a manner consistent with the staff views expressed throughout this collation.

[See/return to Key Issue A\(ii\)](#)

⁵¹

AASB 101 para. 10 (e):

10 A complete set of financial statements comprises of:

...

(e) notes, comprising significant accounting policies and other explanatory information;

GMC 13 Issue 2 – Entities are put in a no-win situation: costly to either avoid or comply with the proposals

[See/return to Key Issue A\(ii\)](#)

PB6-APESB considered that although affected entities could change their constituting documents and thereby scope themselves out of the proposals to avoid compliance costs, doing so could result in significant legal/accounting fees and potentially unintended tax consequences such as capital gains tax. APESB did not quantify these costs.

Staff analysis

The Board considered the costs for entities in changing their constituting documents as part of AASB 2020-2 (see paragraph BC86 of AASB 2020-2) and noted that while changing constitutional documents to remove the requirement to comply with AAS is possible, it can be onerous and could have tax consequences depending on how it is done.

However, as noted in GMC 13 Issue 1, the proposals should not be particularly onerous/costly to prepare. On that basis, as compared to transitioning from SPFS to GPFS, entities are not expected to be significantly burdened if they choose to avoid the potential risks/costs of amending their constituting document.

Staff view

The Board should proceed with the proposals, modified in line with the staff views expressed in the other SMCs/GMCs above.

[See/return to Key Issue A\(ii\)](#)

APPENDIX B Concerns outside the scope of ED 302

This Appendix contains concerns raised by respondents in their comments on ED 302 that staff consider to be outside the scope of ED 302. Staff felt these issues would have no impact on the Board's decision making in respect of ED 302's proposals, however have been flagged for the Board as a matter of record and for completeness if it is felt they should be dealt with as part of their relevant projects.

Appendix B Issue 1 – Sunset clause for grandfathered SPFS

[See/return to remaining issues table](#)

PB12-IPA does not support the 'grandfathering' of classes of entities, particularly those required by their constituting documents to prepare financial statements in accordance with AAS, and thereby allowing them to continue to prepare SPFS. It is of the view there should be a 3 year 'sunset' period for any grandfathering provisions, in which time legislation or constituting documents would need to be modified to remove the requirement to produce financial statements in accordance with accounting standards, otherwise GPFS rather than SPFS would need to be prepared.

Staff analysis

Staff consider this issue is not just relevant to ED 302, it is also relevant to AASB 2020-2, which introduced the grandfathering. It is therefore beyond the scope of this project. As noted in paragraph BC92 of AASB 2020-2, the Board considered feedback on ED 297 and decided providing a 'sunset' date on the exemption from AASB 2020-2 would not meet the objective of providing the exception, because instead of alleviating entities of the potential consequences of changing a trust deed for example, it would only defer such consequences until a later date.

Staff consider this matter could be considered as part of the future post-implementation review of AASB 2020-2 (and of any requirements arising from ED 302).

Staff view

Staff are of the view this matter is outside the scope of this project. We have not considered it in detail as to whether it has merit more generally.

[See/return to remaining issues table](#)

Appendix B Issue 2 – Self-managed Superannuation Reporting

[See/return to remaining issues table](#)

PB12-IPA noted:

“the response to the changes in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) and the guidance on independence for SMSF audits together with the ATO comments in SMSF auditors: New Independence Guide and Commissioner's focus for 2020-21 have cast doubts that many of the financial statements prepared for SMFSs are not, in fact, SPFS as the users cannot command information to meet their specific needs. Then, by default general purpose financial statements should be prepared.

It is clear that decisions in relation to financial reporting are often undertaken not by the users of the financial statements (or the trustees of the SMSFs) but rather by the firms providing administration and other related services to SMSFs.

It has long been our contention that users of SMSF financial statements often receive financial reporting services as part of “turn-key” service and are not in a position to

demand reporting other than the standard reporting provided by the service. Furthermore, this limitation often extends to investment reporting which is provided as part of the standard “platform” service.

The SMSF sector represents 600,000 funds with \$730 billion funds – 27% of Australian retirement funds which have no adequate standard for reporting to members. Three software suppliers (Class, BGL and SuperMate) represent 40% of the market for superannuation reporting and financial reports are still often based on the long defunct AAS 25 *Financial Reporting by Superannuation Plans*

As it clear that the appropriateness of preparing SPFS for SMFS is questionable given the circumstance of the sector and the importance of the SMSF sector, the AASB in conjunction with the ATO address the deficiency in reporting requirements for SMSFs.”

Staff analysis

This issue is of a broader nature beyond the scope of ED 302. It relates to the scope of AASB 2020-2, and the extent to which SMSFs would or should be required to prepare GPFS. Staff note under the revised reporting framework there would be two different reasons why an SMSF might be required to comply with AAS:

- (1) SMSFs required by legislation to comply with AAS, or by a constituting document created or amended on or after 1 July 2020. In this circumstance, although staff are unaware of any SMSF required by legislation to comply with AAS, if there were, they would be required to transition to GPFS under AASB 2020-2; or
- (2) SMSFs required only by its constituting document created before 1 July 2020 and not amended on or after 1 July 2020. In this case, the Board was aware most (if not all) SMSFs were likely to fall outside the scope of AASB 2020-2 when developing that standard (see AASB 2020-2 paragraph BC89). Consequently, those charged with governance would need to continue assessing the appropriateness of preparing SPFS (with reference to the reporting entity concept) until such time as a new constituting document is created or existing document is amended. Staff note this issue relates to the application paragraphs of AAS discussed at length during the development of AASB 2020-2, and therefore is related to the discussion in SMC 2 Issue 6 (relating to guidance needed on SPFS outside scope of ED 302) above. On that same basis staff do not recommend revisiting that discussion as part of the ED 302 project.

Staff view

Consistent with the staff view expressed in SMC 2 Issue 6, this issue is outside the narrow scope of the ED 302 project. The Board could consider it as part of the post-implementation review of AASB 2020-2 (and any requirements that arise from ED 302) and liaise with the ATO as part of that process.

[See/return to remaining issues table](#)

Appendix B Issue 3 – ‘True and fair view’ should require compliance with AAS

[See Key Issue B\(iii\)](#)

PB12-IPA suggested the AASB should require compliance with AAS wherever the terms ‘true and fair view’ or ‘present fairly’ are used in requiring the preparation of financial statements. IPA advocated this given the extent to which those principles are embedded within the Conceptual Framework and individual accounting standards (i.e. AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*). IPA is

concerned there is a policy vacuum in relation to the use of such terms when presenting financial statements.

Staff analysis

We have interpreted this comment as advocating such entities should be required to prepare GPFS, which is outside the scope of this project. To the extent it is advocating such entities should be required to prepare SPFS and include the disclosures proposed in ED 302, our analysis in SMC 2 Issues 6 relating to SPFS outside the scope of ED 302 are again pertinent and therefore not repeated here. Accordingly, the following discussion is limited to summarising previous Board discussions about the implications of ‘true and fair’/‘present fairly’ requirements.

As noted in paragraph BC77 of AASB 2020-2, the Board considered whether entities required by legislation to prepare ‘true and fair view’ financial statements, without reference to compliance with AAS (for example small co-operatives and entities reporting under state and territory gaming legislation) should be affected by AASB 2020-2. The Board noted the *Corporations Act 2001* envisages compliance with the accounting standards might not necessarily result in financial statements that provide a true and fair view. In addition, the UK Financial Reporting Council paper *True and Fair* from June 2014 confirmed to the AASB the primacy of the true and fair requirement above compliance with accounting standards.

Following consultation with other Australian regulators responsible for the legislation referring to true and fair, the Board considered it should be a matter for each regulator to decide how to interpret the relevant legislation in relation to ‘true and fair view’ and noted if the AASB were to impose compliance with AAS whenever legislation required entities to give a true and fair view could possibly have significant unforeseen consequences. Accordingly, the Board decided the application paragraphs of AAS in AASB 2020-2 should not explicitly refer to ‘true and fair’ (or ‘present fairly’) at this time. Applying the same logic in the context of ED 302 would seem reasonable.

Staff view

This issue is outside the scope of the ED 302 project, however, the Board has already considered it and decided against it as it is a matter for each regulator to decide how to interpret the relevant legislation in relation to ‘true and fair view’. Refer to [Action Alert No. 196](#).

[See Key Issue B\(iii\)](#)

Appendix C Webinar Results

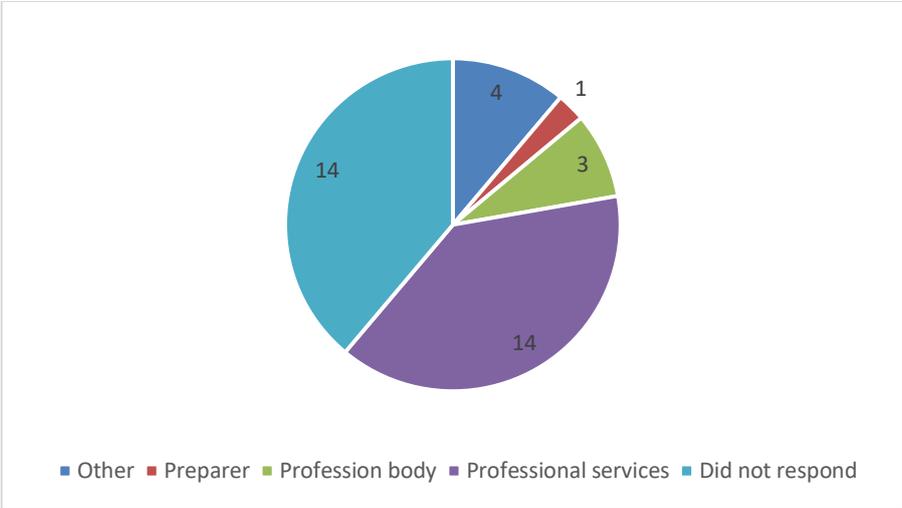
On 1 September 2020 staff hosted an interactive webinar on the proposals in ED 302 to inform stakeholders on the proposals and to receive feedback from attendees. The webinar was publicised in the AASB weekly newsletter and registration was required. 36 stakeholders attended the webinar.⁵² Staff encouraged attendees to ask questions during the webinar to make the session most useful.

Staff also asked attendees to provide feedback via a number of multiple-choice questions. Due to the limitations of webinar platforms, responding to polling questions was optional and attendees were also unable to provide explanations for their responses at the time they selected their response.

Below is a summary of the polling questions and the responses received.

What is your role in relation to financial statements?

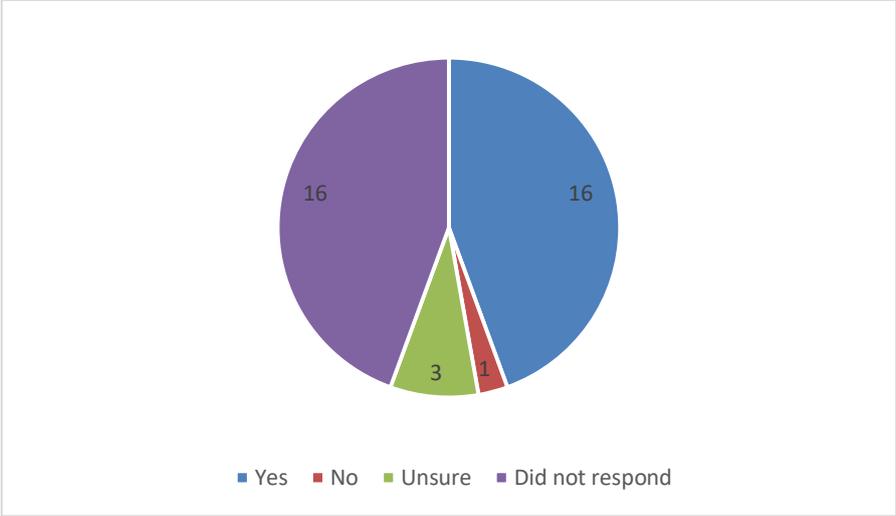
(Total number of responses = 22 out of 36)



⁵² A small number of attendees (six out of the 36 attendees) are aligned with organisations that provided formal comment letters. However, staff have no basis for treating the views expressed by participants during the webinar as anything other than the personal views of attendees.

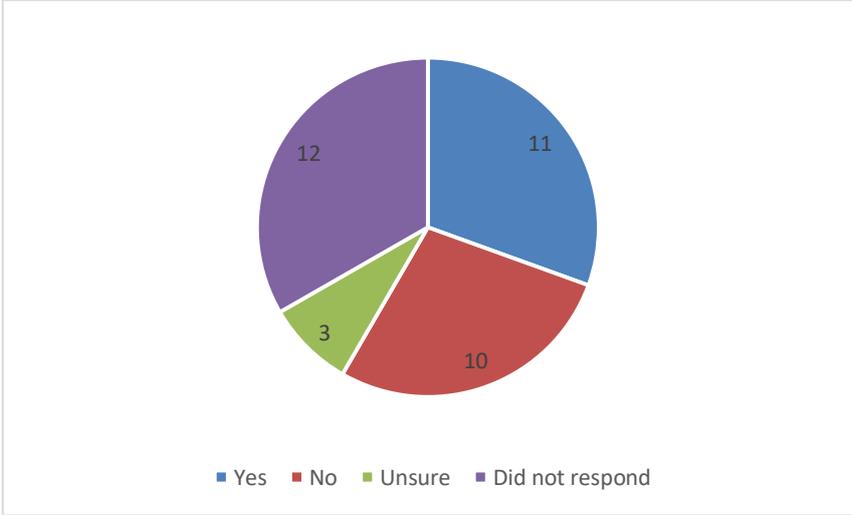
Do you agree the proposed disclosures will improve the transparency and comparability of SPFS?

(Total number of responses = 20 out of 36)



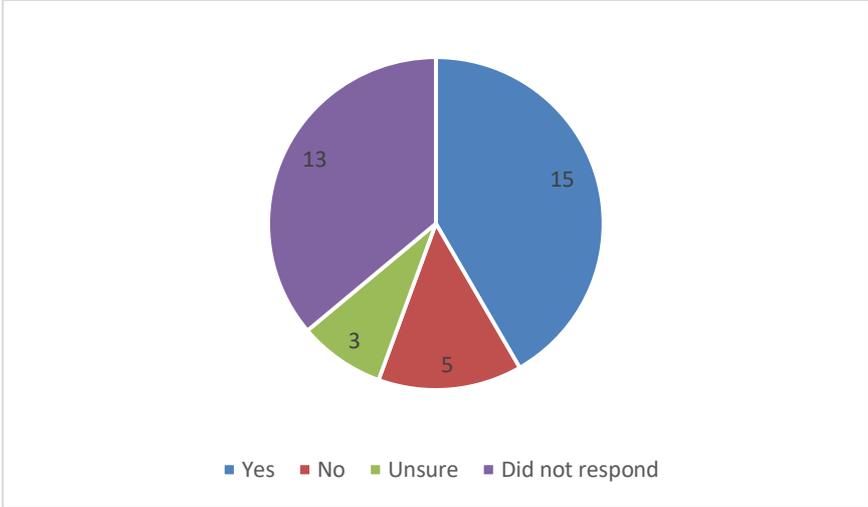
Do you agree with the proposed effective date?

(Total number of responses = 24 out of 36)



Do you agree with the scope of the proposals?

(Total number of responses = 23 out of 36)



Do you agree with the proposed disclosures?

(Total number of responses = 22 out of 36)

