Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Transition Between Tier 2 Frameworks for Not-for-Profit Entities**	**Meeting**	AASB February 2021 (M179)
Topic:	**Analysis of submissions on ED 306 and staff recommendations**	**Agenda Item:**	7.1
		Date:	8 February 2021
Contact(s):	Kim Carney kcarney@aasb.gov.au Meina Rose mrose@aasb.gov.au	**Project Priority:**	High
		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 received on AASB Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities* and provide staff analysis of the key issues raised by stakeholders; and

(b) for the Board to **consider** the staff recommendations and **decide** on next steps.

Attachments

Agenda Paper 7.2	Submissions: ED 306 [supporting documents folder]
Agenda Paper 7.3	For noting: AASB Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities* [supporting documents folder]

Structure

2 This paper is structured as follows:

Background

3 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 in March 2020. AASB 2020-2 removes the ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS) for annual periods beginning on or after 1 July 2021.

4 To encourage for-profit private sector entities within the scope of AASB 2020-2 to transition from SPFS to Tier 2 – Simplified Disclosures (SDS) in advance of AASB 1060's effective date (i.e., for annual periods beginning before 1 July 2021), the Board provided transitional relief including relief from presenting comparative information in the notes, if the entity did not disclose the comparable information in its most recent previous financial statements. This relief is also available to for-profit private sector entities transitioning from Tier 2 – Reduced Disclosure Requirements (RDR) to SDS.

5 The Board subsequently noted that not-for-profit (NFP) entities transitioning early from RDR to SDS cannot access the same transitional relief.

6 The Board issued ED 306 proposing amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to make this relief available to NFP entities transitioning early from RDR to SDS.

List of respondents to ED 306

Category	Respondent	Submission no.
6 Professional Services (PS)	Pitcher Partners	PS1-PP
	KPMG	PS2-KPMG
	Nexia	PS3-Nexia
	Deloitte	PS4-Deloitte
	PwC	PS5-PwC
	EY	PS6-EY (feedback via verbal discussion with staff)
1 Professional Body (PB)	Chartered Accountants Australia & New Zealand/CPA Australia	PB1-CA/CPA

Summary of feedback from respondents

7 All **seven** respondents to ED 306 were **supportive** of the proposals in ED 306. However,

(a) two respondents (PS3-Nexia[1] and PS6-EY) suggested NFP entities transitioning from SPFS to SDS should be given the same transitional relief as for-profit entities. This includes relief from the restatement of comparative information, relief from the disclosure of certain comparative information and relief from distinguishing between errors and changes in accounting policies. Conversely, one respondent (PS2-KPMG) noted that while the relief available to for-profit entities should also be considered for NFP entities, this should be done as part of the NFP financial reporting framework project and not part of this project. See Option A, Option C and Option D of issue 1 for discussion;

1 Staff confirmed that respondent PS3-Nexia supported a sector neutral approach to transition relief.

(b) one respondent (PS4-Deloitte) suggested that NFP entities transitioning to SDS should have the same relief as for-profit entities, however, in respect of transition relief the submission only discussed disclosure relief.[2] See Option C of issue 1 for discussion;

(c) two respondents (PS3-Nexia and PS4-Deloitte) suggested NFP entities transitioning from Tier 1 to SDS require transitional relief. See Option B of issue 1 for discussion; and

(d) two respondents suggested AASB 1060 may not be the best place for the proposed amendments (given their view that additional transitional relief is required for NFP entities). See issue 2 for discussion.

8 One respondent (PS4-Deloitte) provided other feedback which included:

(a) expressing concern that there is insufficient guidance on how entities (both for-profit and NFP) should transition from RDR to SDS, particularly in respect of preparing consolidated financial statements for the first time. The specific concern relates to situations where an entity has previously prepared stand-alone RDR general purpose financial statements (GPFS) and complied with all recognition and measurement requirements but did not prepare consolidated GPFS as they met the exemption in paragraph 4(a) of AASB 10 *Consolidated Financial Statements*. Preparation of consolidated GPFS under paragraph Aus4.2 was not required as the ultimate Australian parent entity/the group were not assessed as a reporting entity.

The concern is that an affected entity would not be able to apply the various exemptions provided in AASB 1 *First-time Adoption of Australian Accounting Standards* but would instead have to apply the transitional provisions in AASB 10, which may be more costly for little additional benefit. There are also concerns that entities may not have access to the necessary historical information and that this will also create audit issues.

This issue was previously considered by the Board when finalising AASB 2020-2. At the time the Board decided it was not appropriate to make the relief available as the extent of entities impacted, while unknown, was expected to be limited (refer paragraph BC142 of AASB 2020-2).

(b) questioning whether the transitional relief in paragraph 18A of AASB 1053 *Application of Tiers of Australian Accounting Standards* (amended by AASB 2020-2) can be applied where an entity prepares stand-alone SPFS for lodgement with ASIC and consolidated, but unaudited GPFS for lodgement with the ATO (for example).

(c) outlining several other matters identified during their implementation of AASB 1060, which are relevant to both for-profit and NFP entities. These matters appear to be in the nature of editorial amendments to AASB 1060.

While all of these matters are outside the scope of this project, which relates to NFP transition relief, staff acknowledge the feedback received. However, staff require more time

[2] Due to time constraints, staff were unable to confirm whether PS4-Deloitte also supported NFP entities being given relief from the restatement of comparative information and relief from distinguishing between errors and changes in accounting policies. Staff expect to provide the Board with a verbal update on their view at this meeting.

to consider these matters and expect to provide the Board with recommendations on how to address these issues at the April 2021 Board meeting.

In relation to issue (a) and issue (b), the extent of affected entities is still unknown, so staff are undertaking further targeted outreach to understand how widespread this issue may be.

Issue 1 – NFP entities require additional transitional relief

9 Feedback from at least two[3] respondents suggested that NFP entities require the same transition relief as for-profit entities (i.e. all of the relief included in Appendix E of AASB 1053 (as amended by AASB 2020-2)). As the relief in Appendix E includes relief which may be affected by the extent of an entity's recognition and measurement compliance as well as disclosure compliance, staff have considered each type of relief independently. Therefore, in addition to the relief proposed in ED 306, staff have considered the following four options for additional transition relief for NFP entities:

A. Relief from restating comparative information in the year of transition, when transitioning from SPFS to SDS (relief equivalent to paragraphs E5-E7 of AASB 1053 as amended by AASB 2020-2).

B. Extending the relief from presenting comparative information for those disclosures not previously made to also include a transition from Tier 1 to SDS (an extension of the relief in ED 306).

C. Extending the relief from presenting comparative information for those disclosures not previously made to also include a transition from SPFS to SDS (an extension of the relief in ED 306).

D. Extending the relief from distinguishing the correction of errors and changes in accounting policy (relief equivalent to paragraph E3 of AASB 1053 as amended by AASB 2020-2).

Option A Relief from restating comparative information in the year of transition, when transitioning from SPFS to SDS

10 Two respondents (PS3-Nexia and PS6-EY) suggested that the relief available to for-profit private sector entities in paragraphs E5-E7 of AASB 1053 (added by AASB 2020-2) should also be made available to NFP entities. Paragraphs E5-E7 provide relief from the restatement of comparative information when an entity transitions from SPFS to SDS before 1 July 2021 and has not previously complied with the recognition and measurement requirements of Australian Accounting Standards (AAS) including the consolidation and/or equity accounting requirements.

Background

11 ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector*, AASB 2020-2's predecessor consultation document, proposed removing SPFS for certain for-profit private sector entities for annual periods beginning on or after 1 July 2020. To allow for the short implementation period, ED 297 proposed certain transitional relief. However, feedback received during the consultation process suggested that adopting the changes from 1 July 2020 was not feasible.

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[3] As noted in footnote 2, staff are yet to confirm whether PS4-Deloitte is also supporting making all of the relief in Appendix E available to NFP entities.

12 The Board therefore decided to delay the effective date of the proposals to annual periods beginning on or after 1 July 2021 but provide transitional relief only if an entity elected to adopt AASB 1060 early, as entities were now given an additional 12 months to prepare for their transition from SPFS. Therefore, the transition relief was only included to facilitate a timely transition to Tier 2 GPFS (i.e., to encourage early adoption) for for-profit private sector entities that would no longer be able to prepare SPFS from 1 July 2021. The relief was not intended to apply to the general first-time adoption of GPFS on an ongoing basis, hence its limited scope (see paragraph BC135 of AASB 2020-2 for additional discussion).

13 When discussing the proposals in ED 306, the Board did consider whether the relief in paragraphs E5-E7 should also be extended to NFP entities (see paragraph BC4 of ED 306). However, at the time, the Board decided not to do so, because providing this relief may encourage NFP entities to voluntarily transition to GPFS when the NFP financial reporting framework is still being developed. The Board was concerned that if an NFP entity transitioned from SPFS to SDS before the NFP financial reporting framework was finalised, they might then later need to transition from SDS to another framework.

14 The Board was also concerned that providing this relief to NFP entities may result in a loss of useful, restated comparative information. The Board further noted that it had decided to grant such relief to for-profit private sector entities due to the mandatory removal of SPFS for such entities, which does not apply to NFP entities. Any mandatory transition by NFP entities from SPFS to GPFS, including appropriate relief, will be considered in more detail by the Board in its deliberations on the Board's separate NFP Financial Reporting Framework project.

Staff analysis

15 Arguments in support of Option A are:

(a) It would ensure consistency with the relief available for for-profit entities in AASB 2020-2.

(b) An NFP entity that is voluntarily transitioning from SPFS should carefully consider any costs associated with the transition and the likelihood that there may be further mandatory changes arising from the AASB's work on the NFP financial reporting framework before deciding whether or not to proceed. However, the transition relief is available to all for-profit private sector entities that are voluntarily transitioning from SPFS before 1 July 2021 (e.g. for-profit entities that are within the scope of AASB 2020-2 and those that aren't, but elect to prepare GPFS). Not providing NFP entities with the same relief disadvantages them compared with for-profit entities who can take advantage of the relief if they choose to.

(c) The relief may reduce preparation costs for NFP entities that voluntarily choose to transition to Tier 2 or those that have to transition to Tier 2 GPFS because their reporting entity status has changed. However, the relief would only be available if they chose to, or are required to, transition from SPFS before 1 July 2021.

16 Arguments that do not support Option A are:

(a) As work on the NFP financial reporting framework remains ongoing, staff do not recommend encouraging NFP entities to transition from SPFS at this time by providing transitional relief, but to wait for this project's outcomes.

Given the lack of recognition and measurement compliance in the NFP sector as evidenced by [AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities*], staff are concerned that encouraging NFP entities to transition to Tier 2 voluntarily (by providing transition relief) may significantly impair the quality of financial statements in the year of transition. Further, as the relief is only available for financial years beginning before 1 July 2021 NFP entities would not have much time to prepare for the transition.

(b) Staff conducted targeted outreach by contacting the ACNC and some accounting firms to understand the extent to which NFP entities had expressed a desire to transition from SPFS prior to 1 July 2021. This outreach did not provide any evidence that there are many NFP entities that would want to transition from SPFS before 1 July 2021 if the relief was made available – noting that entities would need to transition quickly. Staff have further not seen any evidence that there are many NFP entities that will have to transition from SPFS before 1 July 2021 because their reporting entity status has changed.

(c) Staff note that the extent of compliance with the recognition and measurement requirements in the NFP sector is much lower than the for-profit sector. Accordingly, when the Board provided the transitional relief in paragraphs E5-E7 of AASB 1053 (added by AASB 2020-2), it was expected that the majority of for-profit entities that would be required to transition from SPFS would already be complying with recognition and measurement requirements.[4]

In the NFP sector, however, Research Report 11 found that only 26% of the NFP entities within the scope of the Research Report stated compliance with recognition and measurement requirements. The remaining 74% either stated non-compliance with recognition and measurement requirements (30%) or the extent of their compliance or otherwise with recognition and measurement requirements was unclear (44%). While Research Report 11 only focussed on one segment of the NFP sector (entities lodging financial statements with *The Australian Charities and Not-for-profits Commission* (ACNC)), the findings highlight that removing SPFS in the NFP sector is likely to have a significant impact. For this reason, the Board will need to consider in due course what specific transition relief will be appropriate for NFP entities. It would therefore be advisable for NFP entities to wait until the Board has concluded its work on the NFP financial reporting framework before making any voluntary transition decisions.

(d) During the for-profit entity consultation process, some stakeholders raised concerns about a loss of comparability if comparative information is not restated. While the Board adopted a pragmatic approach and proceeded with the relief for for-profit entities, this was to facilitate the timely (voluntary) transition as explained in paragraph 11. In the NFP sector, there are currently no proposals for a mandatory transition from SPFS to SDS. Any such transition would therefore be voluntary and could be avoided (unless the NFP entity's reporting entity status changed and they are therefore no longer able to prepare SPFS). For this reason, in staff's view

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4 AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019). Research Report 12 examines the financial reporting practices of for-profit entities, including large proprietary companies, small foreign-controlled proprietary companies, for-profit unlisted public companies and other small proprietary companies, lodging financial statements with ASIC. Research Report 12 found that 76% of the entities considered were complying with the recognition and measurement requirements in Australian Accounting Standards.

concerns about the loss of comparability remain relevant to the NFP sector. In contrast, the relief proposed in ED 306 applies to NFP entities that must transition from RDR to SDS from 1 July 2021, that is where transition is not optional.

Application of the NFP Standard-Setting Framework

17 PS4-Deloitte questioned whether not providing NFP entities with the same relief as for-profit entities was in line with the *AASB Not-for-Profit Entity Standard-Setting Framework's* (NFP SSF) objective of consistency within and across sectors, as NFP entities are placed at a potential disadvantage when compared to their for-profit counterparts.

18 The Standards developed by the AASB are based on the principle of transaction neutrality, meaning that like transactions and events are accounted for in a like manner by all types of entities unless there is a justifiable reason not to do so (paragraph 23 of the NFP SSF). The NFP SSF sets out circumstances where a different approach may be justified.

19 Paragraph 30(h) of the NFP SSF outlines that NFP-specific Standards, amendments, guidance or examples may be required where "an assessment indicates that the costs of preparing and disclosing information outweigh the benefits to users. Such considerations may arise from NFP application issues, replicating disclosures required by other existing legislation or the prevalence and magnitude of transactions in the NFP sector resulting in the IASB's considerations of undue cost or effort for for-profit entities not being valid for entities in the NFP sector."

20 Paragraph 32(d) of the NFP SSF explains that when considering whether an identified NFP issue is so significant that Australian-specific NFP Standards, amendments, guidance or examples are warranted, the Board considers, among other matters, the costs of the specific change relative to the benefits.

21 Paragraph 33 of the NFP SSF further explains that minimising differences between the financial statements of NFP entities and for-profit entities is beneficial for preparers and users and is consistent with the AASB's policy of transaction neutrality.

22 While staff acknowledge the requirements of the NFP SSF and that extending the relief to NFP entities may reduce the costs for NFP entities choosing to transition from SPFS at this time which would be consistent with the principle of transaction neutrality, staff have not seen sufficient evidence that there are many NFP entities intending to transition from SPFS to SDS before 1 July 2021 either voluntarily or because their reporting entity status has changed.

23 Consistent with the Board's decision in September 2019, the removal of SPFS was to be a phased approach. In staff's view it is reasonable for for-profit and NFP entities to have different requirements during this time. NFP entity transition requirements will be considered when the Board finalises any NFP financial reporting framework proposals and will be developed specifically addressing the needs of NFP entities and the users of their financial statements. As work on the NFP financial reporting framework is ongoing, any transition from SPFS by NFP entities at this time is voluntary, unless the entity's reporting entity status has changed to being a reporting entity (and they are therefore no longer able to prepare SPFS).

Staff recommendation

24 On balance, staff do not recommend extending the relief in paragraphs E5-E7 of AASB 1053 (added by AASB 2020-2) to NFP entities. This is because:

(a) NFP entities are not required to transition from SPFS at this time unless their reporting entity status has changed and they are now reporting entities required to prepare GPFS. There are also currently no proposals to remove the ability for NFP entities to prepare SPFS. As work on the NFP financial reporting framework is ongoing, any voluntary transition from SPFS would be premature and should not be encouraged by the Board by providing additional transition relief.

(b) The low levels of compliance with recognition and measurement requirements in the NFP sector may result in Tier 2 GPFS that lack quality in the year of transition if comparative information is not restated.

(c) As noted in paragraph 16(b), staff have not seen any evidence that there are many NFP entities that would want to voluntarily transition from SPFS to take advantage of the relief.

(d) NFP entities that have to transition from SPFS to GPFS because they have become a reporting entity would not have had any transition relief if their reporting entity status changed in a prior period, and they will not have any transition relief from 1 July 2021. Providing relief for one reporting period would affect comparability with other NFP entities that were, or will be, in the same position in another period.

Question to Board members	
1	Do Board members agree with the staff recommendation that it should not extend the relief in paragraphs E5-E7 of AASB 1053 (added by AASB 2020-2) to NFP entities that transition from SPFS to SDS? If not, what do Board members suggest?

Option B Extending the relief from presenting comparative information for those disclosures not previously made to include a transition from Tier 1 to SDS

25 Two respondents (PS3-Nexia and PS4-Deloitte) suggested NFP entities also need relief from presenting comparative information for those disclosures not previously made when transitioning from Tier 1 to SDS before 1 July 2021. This relief is available to for-profit private sector entities via paragraph E4 of AASB 1053 (added by AASB 2020-2).

Background

26 Paragraph E4 provides for-profit private sector entities with relief from disclosing comparative information in the notes where the entity did not disclose comparable information in its most recent financial statements. ED 306 proposes extending this relief to NFP entities. However, as drafted in ED 306, it would only apply to an NFP entity transitioning from RDR to SDS.

27 There are a limited number of required disclosures under SDS that are not required under Tier 1 GPFS. In relation to termination benefits, this includes information about the nature of the benefits, amounts of the obligation and the extent of funding (see paragraphs 174 and 175 of AASB 1060). In relation to financial assets and financial liabilities measured at fair value the assumptions applied in determining the fair value must be disclosed regardless of

the level of the fair value hierarchy (paragraph 115 of AASB 1060) whereas AASB 13 *Fair Value Measurement* only requires such disclosures for financial instruments classified as level 3 (paragraph 93 of AASB 13).

Staff analysis

28 Arguments in support of Option B are:

(a) It would ensure consistency with the relief available for for-profit entities in AASB 2020-2.

(b) NFP entities transitioning from both Tier 1 and RDR would have consistent transitional relief in respect of comparative period disclosure requirements.

(c) Extending the relief would not require significant redrafting of the proposals in ED 306. As noted in paragraph 26, the proposed relief in ED 306 refers to disclosures not presented in the 'most recent Tier 2 general purpose financial statements'. Extending the relief to include a transition from Tier 1 would be straight forward and would only require amending the drafting to read 'most recent ~~Tier 2~~ general purpose financial statements'.

29 Arguments that do not support Option B are:

(a) The relief would only apply for one more reporting period and would therefore have a potentially limited benefit.

(b) While there may be some NFP entities that choose to transition from Tier 1 to SDS due to the reduced disclosures in SDS (i.e., there are fewer disclosures in SDS than there were in RDR), staff do not expect there to be many, if any NFP entities adversely affected by the potential increase in disclosures noted in paragraph 27 due to the nature of the disclosure requirements if the relief was not provided.

Application of the NFP SSF

30 Staff considered the requirements of the NFP SSF summarised in paragraphs 18-21 and the possible reasons to have different requirements between for-profit and NFP entities.

31 In staff's view, extending the relief to NFP entities is unlikely to reduce costs for them due to the limited number of disclosure requirements that would be affected. Staff are also unsure how many entities would be considering transitioning from Tier 1 to SDS before 1 July 2021.

32 However, as the relief is limited only to disclosures not previously made and would only apply to entities transitioning from GPFS (Tier 1) to GPFS (Tier 2-SDS), staff can see merit in making the relief for entities transitioning from Tier 1 to SDS consistent with the relief available to NFP entities transitioning from RDR to SDS. Due to the limited impact, staff also have no concerns about decreased comparability if this relief was provided.

Staff recommendation

33 On balance, staff recommend extending the comparative disclosure relief to include a transition from Tier 1 to SDS. This is because Tier 1 and SDS are prepared on the same recognition and measurement basis and there would be very few, if any, disclosures for which comparative information is not presented. It would have a limited impact on

comparability and would provide consistent relief for NFP entities transitioning between types of GPFS reports.

Questions to Board members	
2	Do Board members agree with the staff recommendation that it should extend the comparative disclosure relief to NFP entities transitioning from Tier 1 to SDS? If not, what do Board members suggest?

Option C Extending the relief from presenting comparative information for those disclosures not previously made to include a transition from SPFS to SDS

34 Three respondents (PS3-Nexia, PS4-Deloitte and PS6-EY) also suggested the Board extend the comparative disclosure relief to NFP entities transitioning from SPFS to SDS.

<u>Background</u>

35 As noted in paragraph 26, the relief proposed in ED 306 only provides NFP entities with comparative disclosure relief where they are transitioning from RDR to SDS. The equivalent relief in paragraph E4 of AASB 1053 (added by AASB 2020-2) also provides relief to for-profit entities transitioning from SPFS to SDS.

36 The usefulness of any relief would depend on the extent of the NFP entities compliance or otherwise with disclosure requirements in their previous SPFS.

<u>Staff analysis</u>

37 Arguments in support of Option C are:

(a) It would ensure consistency with the relief available for for-profit entities in AASB 20202.

(b) NFP entities transitioning from both RDR and SPFS would have consistent transitional relief in respect of comparative period disclosure requirements.

(c) While only applying for one more reporting period and therefore having a potentially limited benefit, the relief could help those NFP entities that have been considering a transition to GPFS for some time (noting that staff do not recommend encouraging NFP entities to voluntarily transition from SPFS at this time) and those entities that have become a reporting entity and are therefore required to transition to GPFS in the period when the relief can be applied.

(d) Extending the relief would not require significant redrafting of the proposals in ED 306. As noted in paragraph 28(c), the drafting of the proposed relief in ED 306 limits the relief to disclosures not presented in the 'most recent Tier 2 general purpose financial statements'. If the Board decided to extend the relief for NFP entities transitioning from Tier 1 to SDS as contemplated in Option B above, extending the relief to include a transition from SPFS is straight forward and would only require amending the drafting to read 'most recent ~~Tier 2 general purpose~~ financial statements'.

38 Arguments that do not support Option C are:

(a) Depending on the NFP entity's extent of compliance with disclosure requirements in its most recent SPFS, there could be significant comparative information that would not be disclosed if the relief was granted. In particular if an NPF entity has only made the minimum disclosures required for SPFS, the relief could significantly reduce comparability of the information in the financial statements.

In contrast, an NFP entity transitioning from RDR to SDS is expected to have only a limited number of disclosures that are affected. Disclosures that were not required under RDR and therefore may not be disclosed on transition to SDS for the comparative period include:

(i) the entity's domicile and other general information;

(ii) for cash flow hedges and hedges of a net investment in a foreign operation – the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(iii) for associates accounted for at cost, the amount of dividends and other distributions recognised as income;

(iv) for equity-accounted associates and joint ventures the separate disclosure of share of discontinued operations;

(v) a description of the qualitative factors that make up goodwill;

(vi) certain lessee and lessor disclosures (i.e., a maturity analysis of future lease payments for lessees, for lessors with operating leases, variable lease payments recognised as income and for lessors with finance leases, the loss allowance for lease receivables);

(vii) for termination benefits, information about the nature of the benefits, amounts of obligations and the extent of funding;

(viii) parent-subsidiary relationships with government-related entities; and

(ix) audit fees and imputation credits.

Staff do not expect many of these disclosures to be relevant to NFP entities. For this reason, the transition relief proposed in ED 306 is not likely to have such a significant impact on the comparability of the information presented.

(b) NFP entities must transition from RDR to SDS from 1 July 2021, that is, their transition to SDS is not optional. While providing transition relief (either restatement or disclosure) to facilitate early adopt is not uncommon and is often provided in new/amended Standards, as discussed in paragraph 16(d), NFP entities can avoid transitioning from SPFS unless their reporting entity status changes. For this reason, in staff's view no transition relief is needed. For those NFP entities that cannot avoid transitioning from special purpose financial statements because their reporting entity status has changed, as discussed in paragraph 24(d), providing relief for one period would affect comparability with entities that had to transition in other periods.

Application of the NFP SSF:

39 Staff considered the requirements of the NFP SSF summarised in paragraphs 18-21 and the possible reasons to have different requirements between for-profit and NFP entities.

40 Consistent with the rationale outlined in paragraph 22, extending the relief to NFP entities may reduce costs for those NFP entities choosing to transition from SPFS at this time. However, this relief would not provide NFP entities with any guidance or relief to assist with the accounting for changes in recognition and measurement requirements where the SPFS are non-compliant. That is, the relief considered in Option C is disclosure relief only. Given the notable lack of recognition and measurement compliance in the NFP sector (see paragraph 16(c)), relief from providing certain comparative disclosures will not help those NFP entities that are required to restate their comparative information on transition to SDS if the relief in Option A was not also provided.

41 As explained in paragraph 23, NFP entities transitioning from SPFS to SDS will need tailored transitional relief to address recognition and measurement differences. This will be developed as part of the NFP financial reporting framework project.

Staff recommendation

42 On balance, staff do not recommend extending the disclosure relief to include a transition from SPFS to SDS. This is because:

(a) NFP entities are **not** required to transition from SPFS. At this time, there are no proposals suggesting a potential mandatory transition from SPFS to SDS for certain already identified NFP entities that could be early adopted. As work on the NFP financial reporting framework is ongoing, any voluntary transition from SPFS would be premature and should not be encouraged by the Board.

(b) Disclosure relief for comparative information as proposed in ED 306 is likely to be much more extensive for a transition from SPFS to SDS than a transition from RDR to SDS. This is the case in particular where there was only limited compliance with disclosure requirements in the NFP entity's most recent SPFS.

(c) Staff have not seen any evidence that there are many NFP entities that would want to take advantage of this relief or that have to transition from SPFS to GPFS before 1 July 2021 because of a change of their reporting entity status.

Question to Board members

3 Do Board members agree with the staff recommendation that it should not extend the comparative disclosure relief to NFP entities transitioning from SPFS to SDS? If not, what do Board members suggest?

Option D Extending the relief from distinguishing the correction of errors and changes in accounting policy

43 Two respondents (PS3-Nexia and PS6-EY) also suggested the Board make the relief in paragraph E3 of AASB 1053 (as amended by AASB 2020-2) available to NFP entities.

Background

44 Paragraph E3 provides for-profit entities within the scope of AASB 2020-2 that apply paragraph 18A(a) or (b) relief from distinguishing the correction of errors and changes in

accounting policies if the entity becomes aware of errors made in its most recent previous SPFS. This relief applies for periods beginning before 1 July 2022, i.e. if AASB 1060 is adopted early and in the first period of mandatory application.

45 When deciding to provide this relief to for-profit entities, the Board noted that this relief could be particularly relevant where an entity had claimed compliance with applicable recognition and measurement requirements in error. In such a case, there were diverse views as to whether an entity would be permitted to apply the transitional relief in AASB 1 based on the requirements of AASB 1053. The Board also clarified that the applicability of AASB 1 (or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*) relies on whether or not the entity complied with recognition and measurement requirements, not whether they stated compliance (see paragraphs BC138 and BC139 of AASB 2020-2).

Staff analysis and recommendation

46 When contemplating whether to recommend the Board also make this relief available, staff considered that similar arguments to those that support and do not support Option A apply. Staff also considered that similar NFP SSF considerations were also relevant. Staff have therefore not reproduced the analysis.

47 For reasons similar to those outlined in paragraph 24, on balance, staff do not recommend extending the relief in paragraph E3 of AASB 1053 (added by AASB 2020-2) to NFP entities. While there is likely a need for similar relief when the NFP Framework is finalised, considering the findings in Research Report 11, the nature and extent of this relief should be considered in the context of that project and not pre-empted with a two-year limited relief for entities transitioning now. This is also considering the limited evidence staff have obtained of entities wishing, or having to, transition to SPFS as noted in paragraph 16(b).

Question to Board members

4 Do Board members agree with the staff recommendation that it should not extend the relief from distinguishing errors and changes in accounting policies to NFP entities? If not, what do Board members suggest?

Issue 2 - Location of the amendments

48 ED 306 proposes making amendments to AASB 1060 to give effect to the comparative disclosure relief. Both PS4-Deloitte and PS6-EY suggested that AASB 1053 may be a better location for the amendments. PS4-Deloitte suggested this for consistency with the for-profit amendments which are included in AASB 1053. PS6-EY suggested relocating to AASB 1053 would only be required if the Board decided to extend the NFP entity relief as contemplated in Option A above.

49 As staff do not recommend extending the relief in paragraphs E5-E7 of AASB 1053 (added by AASB 2020-2) to NFP entities, staff also do not recommend relocating the relief proposed in ED 306 from AASB 1060 to AASB 1053. For the reasons set out in paragraph BC5 of ED 306, staff's view is that AASB 1060 is the most appropriate location for these amendments.

Question to Board members

5 Subject to the decision on Question 1, do Board members agree with the staff recommendation that AASB 1060 is the most appropriate location for the amendments

	proposed in ED 306? If not, where do Board members suggest the amendments are included?

Next Steps

50 Staff suggest the following timeline should the Board agree with staff recommendations throughout this paper.

Task	Timing
Discuss feedback with Board members	This meeting
Staff to prepare ballot draft of the amending Standard	Week commencing 1 March 2021
Staff to circulate ballot draft of the amending Standard for voting (allow for at least two weekends for voting)	Week commencing 8 March 2021
Issue amending Standard	Week commencing 29 March 2021
Staff education materials - could be combined with planned SDS/SPFS removal education.	Q2 2021

Questions to Board members	
6	Do Board members agree with the suggested next steps and timeline? If not, what do Board members suggest?

Appendix A Summary of responses by respondent

Respondent	Was the respondent supportive of ED 306 proposals **without** amendment?	Did the respondent suggest amendments? If yes, did they suggest:				
		Relief from restatement of comparative information on transition from SPFS? (Issue 1, Option A)	**Relief** from comparative disclosures where comparable information was not previously disclosed on transition from Tier 1? (Issue 1, Option B)	**Relief** from comparative disclosures where comparable information was not previously disclosed on transition from SPFS? (Issue 1, Option C)	**Relief** from distinguishing between errors and changes in accounting policies? (Issue 1, Option D)	That the amendments should **not** be located in AASB 1060? (Issue 2)
PS1 Pitcher Partners	✓					
PS2 KPMG	✓	*	*	*	*	
PS3 Nexia		✓	✓	✓	✓	
PS4 Deloitte		?	✓	✓	?	✓
PS5 PwC	✓					
PS6 EY		✓		✓	✓	✓
PB1 Chartered Accountants Australia & New Zealand/CPA Australia	✓					

* PS2-KPMG noted that while the relief available to for-profit entities should be considered for NFP entities, it should be considered as part of the NFP financial reporting framework project and not as part of this project.

? While the PS4-Deloitte submissions stated that the proposals should be extended "to put NFP in the same position as for-profit entities on transition to Simplified Disclosures", in respect of transition relief, the submission only discussed disclosure relief. Due to time constraints, staff were unable to confirm whether PS4-Deloitte also supported NFP entities being given the relief in Option B and Option D. However, staff expect to provide the Board with a verbal update on their view at this meeting.