



7 KEY FACTS: AASB ED 293: *Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*

1. Clarity regarding compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS) in special purpose financial statements (SPFS) is needed:

- feedback indicates that a key requirement for financial statements users is comparability of R&M.
- the quality of disclosures in a significant number of SPFS is not sufficient to enable a user to determine what additional information they might need.
- research indicates that for 34% of for-profit non-disclosing entities lodging SPFS with the Australian Securities and Investments Commission (ASIC) and 44% of medium and large charities lodging SPFS with the Australian Charities and Not-for-Profits Commission (ACNC) it was unclear whether or not they complied with the R&M requirements in AAS.
- the proposed disclosures would provide more transparency for financial statements available on public record.

2. Assessing the impact of any future transition from SPFS to general purpose financial statements (GPFS):

- no change is required to an entity's existing accounting policies.
- in light of the Board's current broader project proposing to remove the ability for certain entities to prepare SPFS and replace them with GPFS, understanding the extent of alignment between existing accounting policies and the R&M requirements in AAS will help entities assess the impact of any future transition from SPFS to GPFS.

3. Who will be affected by the proposals?

- entities lodging SPFS with ASIC under Part 2M.3 of the *Corporations Act 2001*; and
- not-for-profit (NFP) entities lodging SPFS with the ACNC.

4. What is proposed to be disclosed in the SPFS?

- Based on feedback from users of SPFS about what is important to them, entities preparing SPFS would be required to disclose:
 - the basis on which the decision to prepare SPFS was made;
 - where the entity has subsidiaries, investments in associates or investments in joint ventures; whether or not they have been consolidated or equity accounted in a manner consistent with the requirements set out in AAS. If not, the entity shall disclose that fact and why;
 - if the entity is a NFP entity, and it has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures, the entity shall instead disclose that fact; and
 - an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the R&M requirements in AAS and, if not, an indication of where they do not comply. Where an entity's accounting policies do not comply with the R&M requirements in AAS, the Board is NOT proposing and does not expect a quantification or reconciliation of the extent of non-compliance.

5. Proposed implementation guidance and illustrative examples to assist preparers:

- Implementation guidance and illustrative examples is provided to help preparers understand the nature of the information that is to be disclosed, which is not expected to be onerous.

6. Timeline and feedback:

- Exposure Draft issued in July 2019 with comment period closing on 19 August 2019 (45-day comment period).
- Amending Standard expected to be issued prior to 31 December 2019, and expected to be applicable to annual periods ending on or after **30 June 2020**.
- Entities are encouraged to voluntarily make the proposed disclosures prior to the Standard becoming effective.
- Constituents are encouraged to engage with the AASB via a webinar planned in July 2019, and also to provide written submissions to the Exposure Draft.

7. Consider and plan for any audit implications:

- Once the Amending Standard is effective, auditors are required to evaluate whether the disclosure adequately refers to or describes the applicable special purpose financial reporting framework. Constituents are encouraged to discuss and agree the impact of the proposed disclosure with their auditors as well as any supporting documentation they require.