



<b>Project:</b>	<b>Australian Financial Reporting Framework</b>	<b>Meeting:</b>	AASB June 2020 (M176)
<b>Topic:</b>	<b>Revision of <i>The AASB's For-Profit Entity Standard-Setting Framework</i></b>	<b>Agenda Item:</b>	8.1
		<b>Date of Agenda Paper</b>	26 May 2020
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider revised draft and decide how to proceed

## OBJECTIVE OF THIS PAPER

1. The objective of this paper is for the AASB to consider and, if appropriate, approve revisions to *The AASB's For-Profit Entity Standard-Setting Framework* (the Framework).

## REASONS FOR BRINGING THIS PAPER TO THE AASB

2. The Framework sets out the principles used by the AASB to determine the content of Australian Accounting Standards, including how the AASB uses International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB) to develop, issue and maintain Australian Accounting Standards for the for-profit sector.<sup>1</sup> The Framework is part of a suite of AASB policy documents that explain how the AASB undertakes its work.
3. The draft revised Framework (agenda paper 8.2) would replace the Framework approved by the AASB and issued in May 2018. It incorporates changes resulting from the update and/or finalisation of other AASB policy documents and Standards.

## ATTACHMENTS

Agenda paper 8.2 Draft revised *The AASB's For-Profit Entity Standard-Setting Framework* (Month 2020)

Agenda paper 8.3 *The AASB's For-Profit Entity Standard-Setting Framework* (May 2018) [supporting materials folder]

## STRUCTURE

4. This Staff Paper is set out as follows:
  - (a) Summary of staff recommendations (paragraph 5);
  - (b) Background (paragraphs 6-7);

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<sup>1</sup> See paragraph 1 of the draft revised Framework.

- (c) Key changes proposed to the revised Framework (paragraph 8);
- (d) Other matters for consideration (paragraphs 9-12); and
- (e) Next steps and timeline (paragraph 12-14).

#### SUMMARY OF STAFF RECOMMENDATIONS

5. Staff recommend:
  - (a) the changes proposed to the revised Framework, as set out in Agenda Paper 8.2; and
  - (b) that once finalised, the Financial Reporting Council (FRC) is given the opportunity to comment on the proposed revised Framework.

#### Questions to Board members:

- 1 Do Board members agree with the nature of the key changes made and the contents of the draft revised Framework? If not, what amendments would Board members suggest?
- 2 Do Board members agree with the staff recommendation to provide the FRC with the opportunity to comment on the proposed revised Framework? If not, what do members suggest?
- 3 Subject to the decision on question 2, do Board members agree with the suggested next steps and timeline? If not, what do members suggest?

#### BACKGROUND

6. The current Framework document was approved by the AASB and issued in May 2018. Since that time, a number of policy documents, other documents and Australian Accounting Standards referred to in the Framework document have been superseded or updated. For example:
  - (a) in September 2019, the AASB approved the [AASB Due Process Framework for Setting Standards](#), which replaced the *AASB Policies and Processes* document (issued in March 2011); and
  - (b) in March 2020, the AASB 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 of certain for-profit private sector entities to prepare special purpose financial statements (SPFS).
7. To ensure the Framework remains current, it is necessary to reconsider the content of the Framework and update it as necessary.

#### KEY CHANGES PROPOSED TO THE REVISED FRAMEWORK

8. A summary of the key changes recommended by staff is outlined below. The draft revised Framework closely follows the structure and approach of the existing May 2018 Framework. However, due to the substantial number of changes incorporated in the draft revised Framework, Agenda Paper 8.2 does not show mark ups from the existing Framework.

Subject of the recommended changes	Proposed changes and rationale
(a) In accordance with AASB 2020-2, for-profit private sector entities are no longer permitted to prepare SPFS, subject to limited exceptions.	It is necessary to update the Framework to reflect that for annual periods beginning on or after 1 July 2021 for-profit private sector entities are no longer permitted to prepare SPFS, subject to limited exceptions. For example, the May 2018 Framework: <ul style="list-style-type: none"> <li>- refers to the (then) in-progress project proposing to implement the revised</li> </ul>

Subject of the recommended changes	Proposed changes and rationale
	<p>Conceptual Framework and remove SPFS; and</p> <ul style="list-style-type: none"> <li>- is not clear when the preparation of SPFS for-profit private sector entities is permitted.</li> </ul> <p>See paragraph 14 of the draft revised Framework</p>
<p>(b) The broad principles on which AASB 1060 <i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i> (the Simplified Disclosures Standard, or SDS) was developed.</p>	<p>The now superseded <i>AASB Policies and Processes</i> document summarised the principles applied in identifying Tier 2 Reduced Disclosure Requirements. When the Due Process Framework was prepared, this summary was not carried forward.</p> <p>While a detailed explanation of the principles used in determining SDS disclosures is outlined in the Basis for Conclusions that accompanies AASB 1060, staff consider it is useful for a summary of these principles to also be included in this Framework, where they will be more accessible.</p> <p>See paragraphs 52-55 of the draft revised Framework.</p>
<p>(c) Hyperlinks to external documents and references to other AASB documents.</p>	<p>The May 2018 Framework:</p> <ul style="list-style-type: none"> <li>- contains links to a number of Australian Accounting Standards and other AASB policy and procedure documents which are no longer current. Staff suggest removing these hyperlinks to avoid the links becoming outdated;</li> <li>- contains references to some AASB documents (such as the <i>AASB Policies and Processes</i> document and the <i>Framework for the Preparation and Presentation of Financial Statements</i>) that are now superseded or need updating in some way; and</li> <li>- does not include references to some AASB documents (such as the <i>Protocol for Co-operation between the Australian Accounting Standards Board, the Australian Auditing and Assurance Standards Board, the Australian Financial Reporting Council and the New Zealand External Reporting Board</i> and the <i>AASB Evidence-Informed Standard-Setting Framework</i>) which were</li> </ul>

Subject of the recommended changes	Proposed changes and rationale
	<p>issued after the Framework was approved and issued in May 2018. Staff recommend including references to these documents in this Framework for completeness.</p> <p>See paragraphs 28 and 42 of the draft revised Framework, for example.</p>
(d) Some information was updated to be more general.	<p>The May 2018 Framework refers to some documents which are updated periodically. For example, it refers to the AASB's Corporate Plan 2017-2018. Staff recommend making references like these more general in order to avoid the references becoming outdated.</p> <p>See paragraph 18 of the draft revised Framework, for example.</p>
(e) Other changes (e.g. editorial changes, changes in terminology).	<p>Staff have incorporated a substantial number of editorial changes in the draft revised Framework. For example:</p> <ul style="list-style-type: none"> <li>- terminology is updated to use abbreviations consistently;</li> <li>- information is included to alert readers to the projects on the AASB work program (e.g. the not-for-profit entity definition project); and</li> <li>- the meaning of certain terms is updated to reflect changes (e.g. due to the replacement of the <i>Framework for the Preparation and Presentation of Financial Statements</i>).</li> </ul> <p>See paragraph 11 of the draft revised Framework, for example.</p>

**Question 1 to Board members:**

Do Board members agree with the nature of the key changes made and the contents of the draft revised Framework? If not, what amendments would Board members suggest?

**OTHER MATTERS FOR CONSIDERATION**

9. Staff considered whether it is necessary to provide the FRC with the opportunity to comment on the proposed revised Framework, once finalised by the AASB.
10. Section 225 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) outlines the functions and powers of the FRC. For example, FRC functions include giving the AASB advice or feedback on the AASB's procedures (s. 225(2)(b)). The FRC also has responsibility for promoting the continued adoption of international best practice accounting standards in the Australian accounting standard-setting processes, if doing so would be in the best interests of the Australian economy (s. 225(2)(g)). The FRC also has responsibility for monitoring the operation of accounting standards

to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy (s. 225(2)(h)).

11. As the purpose of this Framework is to set out “how the AASB assesses the appropriateness of IFRS Standards in the Australian context and outlines criteria for when the AASB may consider making modifications to IFRS Standards for for-profit entities,”<sup>2</sup> staff recommend that it is appropriate to provide the FRC with the opportunity to comment on the proposed revised Framework.

**Question 2 to Board members:**

Do Board members agree with the staff recommendation to provide the FRC with the opportunity to comment on the proposed revised Framework? If not, what do members suggest?

**SUGGESTED NEXT STEPS AND TIMELINE**

12. If the revised Framework is approved, staff will incorporate any comments received from the AASB at this meeting.
13. If the AASB decides that it is appropriate to provide the FRC with the opportunity to comment (see Question 1 to the AASB), then staff recommend formally sending the proposed revised Framework to the FRC for consideration at its next meeting (which is on 3 September 2020). Any substantive issues or feedback would be brought back to the AASB, for consideration at a future meeting.
14. Staff propose the following timeline, if the AASB decides to provide the proposed revised Framework to the FRC:

Task	Timing
Staff will update and finalise the proposed revised Framework incorporating feedback received from the AASB	June / July 2020
Staff will formally send the revised Framework to the FRC prior to the meeting on 3 September 2020	Early August to meet FRC meeting mailout.
If the FRC has no comments or has only editorial comments that do not require discussion with the AASB, staff will finalise and issue the Framework following approval by the Chair	October 2020
If the FRC has comments that require discussion with the AASB, staff will provide a summary of the feedback and discuss with the AASB	November 2020 AASB meeting
If the FRC has comments that require discussion with the AASB, staff will prepare a revised draft, with next steps determined based on AASB decisions	To be determined based on AASB decisions in November 2020

**Question 3 to Board members:**

Subject to the decision on question 2, do Board members agree with the suggested next steps and timeline? If not, what do members suggest?

<sup>2</sup> Paragraph 4 of the draft revised Framework.