



The AASB's For-Profit Entity Standard-Setting Framework

Introduction

What is the purpose of this Framework?

- 1 *The AASB's For-Profit Entity Standard-Setting Framework* sets out how the Australian Accounting Standards Board (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.
- 2 This Framework is a basis for the AASB to assess the appropriateness of IFRS Standards in the Australian context, and consider making modifications to IFRS Standards for for-profit entities. This Framework is intended to provide greater transparency of the Board's decision-making process in modifying IFRS Standards, and facilitate consistency in the Board's future decision-making, including both:
 - (a) whether it should undertake a project to modify IFRS Standards for for-profit entities; and
 - (b) the form and extent of any modification.
- 3 This Framework accompanies *The AASB's Not-for-Profit Entity Standard-Setting Framework*, which sets out how the AASB uses IFRS Standards to develop, issue and maintain Australian Accounting Standards for not-for-profit (NFP) entities.

What are for-profit entities?

- 4 For-profit (FP) entities are those entities whose principal objective is the generation of profit¹.
- 5 FP entities exist in both the private and public sectors. FP entities can be either a single entity or a group of entities comprising the parent entity, and include, but are not limited to:
 - (a) listed companies;
 - (b) disclosing entities;
 - (c) some large and small proprietary companies;
 - (d) government business enterprises (GBEs); and
 - (e) some subsidiaries of not-for-profit (NFP) entities.

1 A not-for-profit (NFP) entity is defined in various AASB Standards, including [AASB 102 Inventories](#), paragraph Aus6.1 as "an entity whose principal objective is not the generation of profit". A NFP entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.



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What role does the Australian Accounting Standards Board play in setting accounting standards for for-profit entities?

- 6 Other standard-setters and regulators (eg Commonwealth and state governments), typically in legislation, determine which entities are required to prepare and lodge financial statements publicly and which need to comply with accounting standards. For non-regulated entities (eg trusts), consistent documents determine whether financial statements need to be prepared and if they need to comply with accounting standards.
- 7 The AASB establishes the type and nature of financial statements to be prepared by entities required to report in accordance with Australian Accounting Standards.
- 8 The AASB is required, under s229 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), to consider the suitability of a proposed standard for different types of entities and to ensure there are appropriate accounting standards for each type of entity that must comply with Australian Accounting Standards².

General purpose financial statements

- 9 The AASB sets standards only for general purpose financial statements (GPFS). The objective of a GPFS is to provide financial information to existing or potential users that is useful in making decisions about providing resources³.
- 10 Users of a GPFS are not in a position to require an entity to prepare reports tailored to their particular information needs⁴. The AASB has established a differential reporting framework currently consisting of two tiers of reporting requirements for preparing GPFS⁵.
- 11 For entities not legislatively required to prepare financial statements, if the individuals preparing the financial statements are members of Chartered Accountants Australia and New Zealand (CAANZ), CPA Australia or the Institute of Public Accountants, APES 205 *Conformity with Accounting Standards* requires them to take all reasonable steps to ensure an entity that has general purpose users is preparing a GPFS.

2 For the text of s229, see the Appendix.

3 AASB's [Framework for the Preparation and Presentation of Financial Statements](#), paragraph OB2.

4 [AASB 101 Presentation of Financial Statements](#) defines general purpose financial statements as "... those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

5 See [AASB 1057 Application of Australian Accounting Standards](#).

Special purpose financial statements⁶

- 12 The AASB currently does not set standards for special purpose financial statements (SPFS)⁷, as these financial statements should only be prepared where users can tailor the SPFS to their own information needs, and therefore do not need a standard setter or regulator to require the information for them.
- 13 Accordingly, those responsible for the preparation of SPFS, such as directors, determine to what extent, if at all, SPFS comply with accounting standards.
- 14 The AASB has specified in AASB 1057 *Application of Australian Accounting Standards*⁸ that some individual disclosure focused accounting standards must be complied with by each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*. Consequently, these entities are required to apply the specified Standards regardless of whether GPFS or SPFS are prepared. The AASB included this requirement in AASB 1057 as part of moving legacy regulations out of legislation and into Australian Accounting Standards and formed no view as to the suitability or otherwise of these requirements for users of SPFSs.
- 15 In some instances regulators have also recommended compliance with recognition and measurement requirements of Standards⁹.

External reporting beyond financial reporting

- 16 The AASB's powers and functions are set out under Part 12 Section 227 of the ASIC Act. Section 227 (1)(c)¹⁰ allows the AASB to "formulate accounting standards for other purposes" and it is under this function that the AASB has the mandate to develop Australian Accounting Standards addressing external reporting beyond financial reporting. Further, the AASB's *Corporate Plan 2017-2018*¹¹ sets out a strategic objective (strategy no. 5) to "influence initiatives to develop standards and guidance that meet user needs for external reporting beyond financial reporting". The AASB considers that this Framework is equally applicable to Accounting Standards relating to both financial and beyond financial reporting.

Enforcement

- 17 Enforcement of preparation of financial statements and compliance with accounting standards is the responsibility of other regulators (eg Australian Securities and Investments Commission). It is not the responsibility of the AASB.

6 The AASB is currently undertaking a project to introduce a revised IASB Conceptual Framework into Australia which would remove Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, the current reporting entity concept and the ability to prepare SPSF when an entity is required to prepare financial statements in accordance with Australian Accounting Standards.

7 [AASB 1054](#) defines SPFS as financial statements other than GPFS.

8 See [AASB 1057](#) paragraph 7.

9 See [ASIC Regulatory Guide 85](#): *Reporting requirements for non-reporting entities*.

10 For the text of s227, see the Appendix.

11 See [AASB-AUASB Corporate Plan 2017-18](#).



What assumptions underpin the for-profit standard-setting framework?

- 18 To maintain confidence in the Australian economy (including its capital markets), obtain the benefits of international competitiveness and comparability, and ensure the cost of complying with Australian Accounting Standards do not outweigh the benefits, this Framework is predicated on the assumptions below.
- 19 When there is evidence these assumptions are no longer appropriate for the Australian context, this Framework will be reconsidered. The AASB and/or its oversight body, the Australian Financial Reporting Council (FRC), periodically consult to determine whether these assumptions remain appropriate¹².

Publicly accountable entities

- 20 Publicly accountable entities must be able to claim compliance with International Financial Reporting Standards (IFRS Standards) and must prepare Tier 1¹³ GPFS.
- 21 These entities include those:
- (a) with debt or equity instruments (eg bonds or shares), traded in a public market (eg Australian Stock Exchange); or
 - (b) holding assets in a fiduciary capacity (eg banks and insurance entities)¹⁴.
- 22 These entities have the most significant individual and collective impact on the Australian economy, and accordingly, are subject to the highest level of accountability for, and transparency of, their financial information.
- 23 The benefits of IFRS compliance for these types of entities are set out in AASB Research Report No 4 *Review of Adoption of International Financial Reporting Standards in Australia*¹⁵.

12 In 2015 the AASB commenced a review of the adoption of IFRS Standards to hear the views and experiences of Australian stakeholders, with the objective of assessing the ongoing relevance of IFRS Standards to Australian for-profit and not-for-profit (NFP) reporting entities (eg charities and public sector entities). [AASB Research Report No 4](#) summarises the stakeholder feedback received.

13 [AASB 1053 Application of Tiers of Australian Accounting Standards](#) requires Tier 1 GPFS to comply with all recognition, measurement, presentation and disclosure requirements of Australian Accounting Standards.

14 See [AASB 1053](#) Appendix A *Defined Terms*.

15 [AASB Research Report No 4](#) identifies the following benefits of using IFRS:

- cost savings for entities (with a foreign parent or with foreign-based subsidiaries) that previously required multiple national GAAPs to be applied across the group
- for larger private entities, adoption facilitated access to international capital markets
- for listed entities, adoption facilitated the activities of analysts by enhancing comparability of financial statements across borders
- the ability to readily assist subsidiaries in jurisdictions that have adopted IFRS Standards in recent years.



IFRS Standards are appropriate as a base

- 24 IFRS Standards (including Interpretations) are appropriate as a base for the following reasons:
- (a) they are developed by an expert standard-setting board, the International Accounting Standards Board (IASB), and its views represent international consensus on best practice for publicly accountable for-profit entities;
 - (b) they are developed following a stringent due process which encourages parties interested in financial reporting to express their views; and
 - (c) the AASB is able to participate in the development of the IASB's proposals to the extent it considers appropriate¹⁶.

Transaction neutrality

- 25 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.

Australia/New Zealand convergence

- 26 Differences between accounting standards issued in Australia and New Zealand (NZ) for FP entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman¹⁷.

¹⁶ The AASB's typical involvement in the IASB standard-setting process is set out in the [AASB Policies and Processes](#).

¹⁷ See [AASB-AUASB Corporate Plan 2017-18](#)



What is the for-profit standard-setting framework?

- 27 The AASB develops, issues and maintains accounting standards for the FP sector as follows.

Publicly accountable entities

- 28 When developing accounting standards for publicly accountable entities, the AASB's objectives are to:
- (a) define 'publicly accountable' to include those meeting the IASB's *IFRS for SMEs* definition of 'publicly accountable' and those deemed by the AASB to have public accountability (see below)¹⁸;
 - (b) ensure they can make an unreserved statement of compliance with IFRS Standards and prepare Tier 1 GPFS in compliance with Australian Accounting Standards;
 - (c) in rare and exceptional circumstances, subject to (b), require recognition and measurement interpretations or disclosures additional to IFRS Standards to address Australian-specific legislation, user needs, or public interest issues relevant to financial or beyond financial reporting (see below); and
 - (d) make justified additional requirements via 'Aus' paragraphs, additional standards or interpretations, or specific examples (eg AASB 1054 *Australian Additional Disclosures*, Interpretation 1003 *Australian Petroleum Resource Rent Tax*, AASB 10 *Consolidated Financial Statements* paragraph Aus4.2).

Other FP entities:

- 29 When developing accounting standards for other FP entities, the AASB's objectives are to:
- (a) use IFRS Standards and transaction neutrality as a starting point, however, when justified, make modifications to IFRS Standards or develop Australian-specific guidance to address:
 - (i) Australian-specific legislation, user needs, or public interest issues relevant to financial reporting or beyond financial reporting;
 - (ii) issues specific to the public sector of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements.

¹⁸ See [AASB 1053](#)



- (iii) Where the objectives and qualitative characteristics of financial reporting as set out in the *AASB Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) would not be met¹⁹; and/or
 - (iv) undue cost or effort considerations.
- (b) make justified modifications to IFRS Standards via:
- (i) ‘Aus’ paragraphs changing an IFRS Standard’s scoping, recognition, measurement, presentation or disclosure requirement (eg AASB 10 paragraph Aus4.1); and/or
 - (ii) Australian-specific guidance in additional appendices or specific examples;
- (c) address in Australian-specific standards, interpretations or guidance, FP issues that have not been comprehensively or appropriately dealt with in existing IFRS Standards, including where no relevant IFRS Standard exists (eg AASB 1054, AASB 1056 *Superannuation Entities*, AASB 1059 *Service Concession Arrangements: Grantors*); and
- (d) permit GPFS to be prepared using either Tier 1 (compliance with Australian Accounting Standards) or Tier 2 (compliance with Australian Accounting Standards – Reduced Disclosure Requirements)²⁰.

19 See Chapter 1 and Chapter 3 in the Appendix to the [Conceptual Framework](#).

20 The AASB’s project on improving the Australian Financial Reporting Framework may result in additional tiers being developed.



When will entities be deemed publicly accountable?

- 30 The AASB will deem categories of entities as publicly accountable in order to provide clarity regarding those entities required to prepare Tier 1 GPFS.
- 31 Factors considered by the AASB include:
- (a) similarity with entities captured by the *IFRS for SMEs*²¹ definition;
 - (b) similarity with entities already deemed publicly accountable by the AASB;
 - (c) widespread ownership with widespread changes in ownership of the entity's equity or debt instruments, regardless of whether listed (ie a user's most realistic recourse if not satisfied with management is to sell the investment rather than influence management to change); and
 - (d) fiduciary nature of the business.
- 32 Given the objective of minimising differences with NZ for FP entities, any proposals for additional deeming of entities as publicly accountable are discussed with the New Zealand Accounting Standards Board (NZASB) and require a justifiable Australian-specific legislative or other rationale for differences.

What triggers the AASB to consider Australian-specific for-profit standards or guidance?

- 33 The AASB considers the need for Australian-specific standards, amendments, guidance or examples when:
- (a) a new IFRS Standard or pronouncement – or amendments to an existing IFRS Standard or pronouncement – is issued;
 - (b) a post-implementation review (PIR) of an IFRS Standard or Australian Accounting Standard gives a compelling reason to do so;
 - (c) Australian constituents raise the need with the AASB (via agenda consultation, outreach activities, or written or verbal submissions);
 - (d) a new International Public Sector Accounting Standards Board (IPSASB) Standard or pronouncement is issued (for public sector FP entities);

21 *IFRS for SMEs* Appendix B defines public accountability as follows:

An entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.



- (e) Australian-specific legislation with financial reporting implications is issued;
- (f) senate or other legislative enquiries contain recommendations for external reporting within the AASB's remit; and/or
- (g) evidence of diversity in accounting practices exists, and the prevalence and magnitude of the issue results in entities' reported performance or financial position not reflecting economic reality (eg ASIC surveillance program results).



When might Australian-specific standards or guidance be justified?

- 34 The AASB uses professional judgment in reaching its conclusions about FP-specific standards, amendments, guidance or examples.
- 35 As part of its normal standard-setting due process, reasons for conclusions are documented in the related Basis for Conclusions and the extent of differences to IFRS Standards are documented in the material accompanying the Australian Accounting Standard.

Publicly accountable entities

- 36 Only in rare and exceptional circumstances will additions to IFRS Standards be justified. AASB's disagreement with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.
- 37 Justifiable circumstances may include:
- (a) Australian-specific legislation is not adequately addressed by the IFRS Standard and there has been, or is likely to be, diversity in practice warranting specific guidance (eg Australian petroleum resource rent tax);
 - (b) an existing optional treatment in the IFRS Standard is not consistent with Australian-specific legislation and should therefore be eliminated;
 - (c) users require additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily (eg franking credits);
 - (d) Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees, remuneration reporting). Such disclosures must:
 - (i) meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework;
 - (ii) have strong user support;
 - (iii) deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness; and
 - (iv) no other existing legislative or voluntary reporting frameworks provide the information or are more appropriate avenues to obtain the information; and/or
 - (e) current Australian practices will impose additional costs and/or time to transition to a new IFRS Standard when compared with international counterparts, warranting deferral of the application date.



Other for-profit entities

38 For other FP entities, in addition to the justifiable circumstances outlined for adding to IFRS Standards for publicly accountable entities, other justifiable circumstances for Australian-specific amendments, standards or guidance include:

- (a) issues specific to the public sector are of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements. Consistency across the public sector, rather than consistency with other FP entities, is more important to users. *The AASB's Not-for-Profit Entity Standard-Setting Framework* provides more details; and
- (b) an assessment indicates that the costs of preparing and disclosing information outweighs the benefits to users. Such considerations may arise from application issues due to unfamiliar terminology, current practice issues, or replicating disclosures required by other existing legislation.

New Zealand convergence – for-profit entities

39 Given the objective of minimising differences with NZ, any proposals for modifying IFRS Standards – or providing additional Australian-specific standards, amendments, guidance or examples – requires discussion with NZASB and a justifiable specific legislative or other rationale for differences.

Are the identified issues sufficiently significant to warrant for-profit-specific standards and/or guidance?

- 40 The AASB assesses the following when deciding whether the identified FP issue is so significant that specific Australian standards and/or guidance is warranted:
- (a) the quantitative and qualitative significance of a transaction, event or circumstance on an entity's financial statements taken as a whole, and the likely impact on a user's decision making ability;
 - (b) the quantitative and qualitative significance of a transaction, event or circumstance on relevant sectors and the Australian economy as a whole and the likely impact on users' decision making ability;
 - (c) whether a modification will increase or decrease internal consistency within IFRS Standards and/or Australian Accounting Standards, including the Conceptual Framework;
 - (d) the costs of the specific change relative to the benefits; and
 - (e) the qualitative and quantitative impact on publicly accountable entities, including comparability with international competitors and competitive disadvantage.

Publicly accountable entities

- 41 The AASB assesses the likely impact of an IFRS Standard on confidence in the Australian economy:
- (a) at both the individual IFRS Standard level and at the level of IFRS Standards as a whole; and
 - (b) before adopting the IFRS Standard as an Australian Accounting Standard.
- 42 For publicly accountable FP entities to gain the benefits of international credibility, and for users to gain the benefits of comparability, IFRS Standards issued by the IASB have to be applied in full.
- 43 The consequences of not adopting an IFRS or modifying an IFRS (such that publicly accountable FP entities are not IFRS-compliant) would detrimentally impact international competitiveness and likely impose additional costs of raising capital for all Australian entities.
- 44 The highly unlikely and exceptional circumstances in which the AASB contemplates non-compliance with IFRS Standards as a whole for publicly accountable FP entities would require all of the following criteria to be present:
- (a) substantive evidence, including a detailed cost/benefit analysis that IFRS Standards as a whole framework would result in a loss of investor confidence in the Australian economy (assessing financial stability, economic growth, cost of



capital implications, investment of international capital, change in behaviour by investors and other key stakeholders);

- (b) the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework²² are no longer adequately met;
 - (c) significant and consistent feedback from investors, preparers and accounting professionals that IFRS Standards are no longer appropriate in the Australian context;
 - (d) NZASB is making a similar assessment;
 - (e) a significant number of major countries currently applying IFRS Standards decide to no longer apply IFRS Standards; and
 - (f) a demonstrably more appropriate alternative is available.
- 45 Before any decision impacting IFRS compliance is made, the AASB would conduct specific and widespread consultation, with parties including the FRC, Treasury, relevant ministers and the NZASB.

22 See Chapter 1 and Chapter 3 in the Appendix to the [Conceptual Framework](#).



How are Australian-specific for-profit standards and/or guidance developed?

- 46 Having determined that an Australian-specific standard and/or guidance is required, the AASB:
- (a) in the case of an interpretive issue for publicly accountable FP entities, consults with the IFRS Interpretation Committee, and proceeds only if the Committee has declined to consider the issue, and consults with IASB Staff to ensure that IFRS compliance is maintained; and
 - (b) considers whether to:
 - (i) modify the existing IFRS Standard through 'Aus' paragraphs, additional appendices for implementation guidance, additional examples; or
 - (ii) develop an additional Australian-specific standard or interpretation.
- 47 In making this determination the AASB considers the:
- (a) extent and importance of Australian-specific legislative, user needs or public interest issues in maintaining confidence in the Australian economy;
 - (b) impact on international perceptions of Australian Accounting Standards complying with IFRS Standards;
 - (c) inadvertent or inappropriate use of additional guidance by publicly accountable FP entities that may result in non-IFRS compliance; and
 - (d) extent of modifications required.
- 48 In developing the proposals for new standards or guidance, the AASB considers:
- (a) consistency with the Conceptual Framework;
 - (b) consistency with existing Australian Accounting Standards and interpretations;
 - (c) other authoritative material that is relevant, such as:
 - (i) other national standard-setter pronouncements, including pronouncements of the NZASB; and
 - (ii) for public sector issues, IPSASB Standards, guidance and Conceptual Framework;
- 49 The AASB follows its normal due process for setting new standards and guidance.
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Appendix

Australian Securities and Investments Commission Act 2001

s227 AASB's function and powers

- (1) The functions of the AASB are:
 - (a) to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards; and
 - (b) to make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions); and
 - (c) to formulate accounting standards for other purposes; and
 - (d) to participate in and contribute to the development of a single set of accounting standards for world-wide use; and
 - (e) to advance and promote the main objects of this Part.

...

s229 Generic and specific standards

- (1) Accounting standards made or formulated by the AASB may:
 - (a) be of general or limited application (including a limitation to specified bodies or undertakings); and
 - (b) differ according to differences in time, place or circumstance.
- (2) In making and formulating accounting standards, the AASB:
 - (a) must have regard to the suitability of a proposed standard for different types of entities; and
 - (b) may apply different accounting requirements to different types of entities; and
 - (c) must ensure that there are appropriate accounting standards for each type of entity that must comply with accounting standards.