



**Subject:** Minutes of the 169<sup>th</sup> meeting of the AASB  
**Venue:** TEQSA Executive Board Room, Tower Level 14, 530 Collins Street, Melbourne  
**Time(s):** Tuesday, 19 February 2019, from 9:00 am – 4:50 pm

All agenda items except items 1(a), 1(b), 14 and 15 (Review) were discussed in public.

## Attendance

Members	Kris Peach (Chair) Mike Blake (Deputy Chair) Kimberley Crook Peter Gibson James Grant Ken Liow Carmen Ridley Paul Rogers Taryn Rulton Stephen Taylor Alison White
Apologies	–
<i>In attendance</i>	
Staff	Clark Anstis Patricia Au James Barden Aanchal Bhandari Kimberley Carney Shachini Dassanayake Neha Juneja Kala Kandiah Tom Liassis Peter Loukas Damian Paull (part of meeting) Meina Rose
AUASB Staff	Roger Simnett – agenda item 1 Marina Michaelides – agenda item 1 Anne Waters – agenda items 3 and 4
Other	Emily Fox, Deloitte – agenda item 9 Moana Overton, Deloitte – agenda item 9



## **Agenda and Chair's Report**

### Agenda Item 1

The Chair noted the significant items on the agenda and provided the Board with an update on recent and future activities.

Board members elected Mike Blake to the role of Deputy Chair of the Board.

## **Apologies, Declarations of Interest, Minutes and Approvals Out of Session**

### Agenda Item 2

#### **Apologies**

There were no apologies for this meeting as all members were present.

#### **Declarations of Interest**

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board.

Mike Blake declared an interest in agenda item 8, Kimberley Crook declared an interest in agenda items 6, 7 and 9, and Alison White declared an interest in agenda item 9. The Chair noted that the interests were not significant enough to warrant Board members not being present during the discussion of the agenda items.

#### **Minutes**

The Board approved the minutes of the one hundred and sixty-eighth meeting, held on 13 November 2018.

#### **Approvals Out of Session**

The Board noted the out-of-session approval of the following consultation documents and Standards since the previous meeting:

- Exposure Draft ED 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (November 2018);
- Exposure Draft ED 287 *Onerous Contracts – Cost of Fulfilling a Contract* (January 2019);
- Fatal-flaw review version of Proposed Standard AASB 2019-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (January 2019);
- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business* (December 2018);
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (December 2018); and



- AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* (December 2018).

## Financial Statements of Non-Disclosing Entities Lodging with ASIC

### Agenda Item 3

The Board discussed initial findings from a research project addressing the reporting practices of for-profit non-disclosing entities lodging Special Purpose Financial Statements (SPFS) with ASIC. In particular, the Board noted that there are 12,800 large proprietary companies, small foreign-controlled proprietary companies and unlisted public companies lodging financial statements with ASIC as at 30 July 2018, out of a total population of 800,000 trading companies. Of these 12,800 companies, 55% prepared SPFS in the period 2016-2018, compared with 66% for the period 2009-2011. The number of entities lodging financial statements with ASIC would reduce further if the Government's proposals to double the size thresholds for identifying large proprietary companies are implemented.

The Board also discussed challenges that users of financial statements currently face when determining whether entities are compliant with the recognition and measurement requirements of Australian Accounting Standards (AAS). The Board will consider whether entities should be required to include a statement of compliance with recognition and measurement requirements of AAS in their financial statements as a priority, independently of the financial reporting framework proposals.

The research will be addressed further at the next Board meeting.

Action: Staff

## Conceptual Framework – For-Profit Entities (Phase 2)

### Agenda Item 4

The Board decided to proceed with proposals to remove the ability of for-profit private sector entities to publicly lodge special purpose financial statements (SPFS) after considering:

- responses from financial statement users, preparers and other stakeholders during the public consultation period, including over 160 targeted discussions;
- the findings in AASB Research Reports and commissioned academic research;
- the results of user and preparer surveys; and
- feedback from regulators.

The accumulated body of evidence indicates there are significant numbers of users of all publicly lodged financial statements and there was widespread acknowledgement, particularly from users, that the current financial reporting framework does not provide consistent, comparable and transparent financial statements. Enforceability was also noted as a key issue. The Board noted the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "Banking Royal



Commission”) highlighted the importance of removing exceptions in legislation and that removing the SPFS self-assessment option would remove an exception and would bring Australia into line with the rest of the world.

Accordingly, the Board determined the following:

- (a) the desired outcome to address the SPFS issue should be a consistent, comparable, transparent and enforceable financial reporting framework for all for-profit private sector entities (within the scope of the Phase 2 proposals) that have a statutory requirement to prepare financial statements that comply with Australian Accounting Standards (AAS) or accounting standards. To achieve this, the Board decided it is necessary to propose in relation to for-profit private sector entities:
  - (i) amendments to AAS to remove the ability for such entities to self-assess their reporting entity status and prepare SPFS; and
  - (ii) all such entities to prepare some form of general purpose financial statements (GPFS) compliant with AAS;
- (b) the forthcoming Exposure Draft will propose only one Tier 2 GPFS framework, given the small number of entities required to publicly lodge financial statements – currently 12,800 (which is less than 2% of trading entities). The ED will propose replacing the existing Tier 2 GPFS Reduced Disclosure Requirements (RDR) framework with a framework that would still require compliance with all recognition and measurement (R&M) requirements in AAS – including consolidation and equity accounting.

In making this decision, the Board noted the strong preference expressed by the majority of respondents for a framework that includes full R&M requirements in AAS on the grounds that it would enhance the comparability, consistency and transparency of the financial statements. Such a framework would also minimise the costs associated with the transition from SPFS to Tier 2 GPFS for the majority of preparers – based on feedback received from various forums and the preliminary findings of the AASB’s research into the level of compliance with R&M requirements by ASIC-regulated entities – that are already complying with R&M requirements in AAS (in accordance with ASIC Regulatory Guide RG85). The Board noted that 3,000 small foreign-controlled entities already apply either the full R&M requirements in AAS or US GAAP for consolidation by a parent entity, and that large proprietary companies that are consolidated into AASB Tier 1 entities already apply the full R&M requirements.

The Board noted that a minority of respondents had asked the Board to consider *IFRS for SMEs* as an option or alternative for Tier 2 GPFS. However, the Board noted that these respondents did not provide any new arguments as to whether *IFRS for SMEs* would be preferable to full R&M requirements as an alternative Tier 2 GPFS. The Board also noted that *IFRS for SMEs* includes requirements for consolidated financial statements, deferred tax accounting, financial instruments accounting and related party disclosures that are not substantively different to full IFRS R&M



requirements. For these reasons, the Board decided not to propose a Tier 2 GPFS framework with differential R&M requirements;

- (c) further research and outreach is required before determining what additional transitional relief might be required to ensure the transition from SPFS to Tier 2 GPFS is not unduly burdensome. This work should give particular consideration to the preparation of consolidated financial statements and the application of equity accounting for the first time, whether comparative information is required in the year of transition, and additional ongoing compliance costs;
- (d) to undertake further research to assess whether it is appropriate to provide grandfathering relief for entities with a non-legislative requirement to prepare financial statements in accordance with AAS, such as a requirement in their trust deed or other compliance document. The Board will consider the number of entities that may be affected and whether it is possible to develop objective criteria related to economic significance for distinguishing those entities that should be required to comply with AAS;
- (e) finalise the research into current compliance with R&M requirements to assist in determining the cost/benefit of the final proposals; and
- (f) the forthcoming Phase 2 ED will be accompanied by a formal Feedback Statement. The Feedback Statement will include details of the research and outreach activities that have been conducted throughout the standard-setting process in order to demonstrate compliance with *The AASB's For-Profit Entity Standard-Setting Framework*.

The Board will continue to consult with a wide range of stakeholders in drafting the proposals to be included in the Phase 2 ED.

The Board reconfirmed its decision that it is appropriate to progress the for-profit entity project in advance of the not-for-profit entity project to improve the financial reporting framework. The Board noted that the for-profit sector entities publicly lodging financial statements have greater levels of economic significance, size and resources, and proportionately are a significantly smaller number (less than 2% of trading entities), compared with approximately 33% of charities preparing financial statements. The Board also noted that the Banking Royal Commission findings, various Senate enquiries on tax avoidance, the existing RG85 guidelines and the preliminary findings of the academic research on compliance with R&M requirements clearly indicate that existing disclosure practices are extremely confusing for users, and with the effective date of the IASB Conceptual Framework, it is imperative to progress the for-profit project.

Action:

Staff

## Legislative Financial Reporting Requirements

Agenda Item 5



The Board decided to propose that, in order to implement Phase 2 of the Conceptual Framework project for for-profit private sector entities, the application paragraphs for AAS would:

- (a) not exclude any for-profit private sector entities that are required by legislation to prepare financial statements in accordance with accounting standards;
- (b) refer to compliance with accounting standards and Australian Accounting Standards;
- (c) not refer to 'true and fair view' – staff are to consult with regulators to ascertain whether the reference to a true and fair view in their legislation should require compliance with the accounting standards; and
- (d) not encompass financial information required by legislation to comply with accounting standards where that information does not comprise a complete set of financial statements.

The Board supported publication of the Staff Research Report on the financial reporting requirements set out in legislation in Australia.

Action: Staff

## **Not-for-Profit Entity Definition**

Agenda Item 6

The Board decided to issue an Exposure Draft proposing to:

- (a) replace the current definition of not-for-profit (NFP) entity based on the definition of public benefit entity in New Zealand; and
- (b) provide guidance to assist an entity that prepares general purpose financial statements to determine whether it is a for-profit entity or an NFP entity for the purpose of applying the accounting standards.

The ED will propose including the definition and guidance in AASB 1057 *Application of Australian Accounting Standards* and permitting early adoption. The ED will be open for a 90-day comment period. The ED will address issues raised in discussions through the Financial Reporting Framework project and is important given the proposals at this stage for for-profit entities.

Action: Staff

## **Tier 2 – IFRS for SMEs Disclosures**

Agenda Item 7

The Board decided to progress developing a separate *IFRS for SMEs*-based disclosure Standard. This would be a new Tier 2 disclosure Standard available for for-profit entities that are not publicly accountable, whilst retaining the full recognition and measurement requirements of AAS.



The final staff analysis along with a draft Exposure Draft will be considered by the Board at the next meeting.

Action:

Staff

## **AASB Approach to IPSASB Standards**

### Agenda Item 8

The Board decided to amend the draft policy document set out in Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* to address the following:

- (a) clarify the process for the Board to consider when to begin a formal consultation on adopting International Public Sector Accounting Standards (IPSAS);
- (b) the factors to be considered by the Board should include whether IPSAS have addressed the latest principal versions of IFRS Standards and the effect of IPSAS on stewardship and accountability frameworks in the public sector;
- (c) it is not essential for IPSAS to include a reduced disclosure regime as the Board would be able to develop its own regime if appropriate;
- (d) the Board would consider the broader impact on the Australian economy of adopting IPSAS and not only the impact on the public sector;
- (e) the lack of an interpretation structure and interpretative materials should be added as an additional cost of adopting IPSAS;
- (f) the Board's report on the differences between IPSAS and Australian Accounting Standards would be updated periodically to provide input into the Board's assessment; and
- (g) the Board's assessment criteria and conclusions would be published when the Board makes an assessment of adopting IPSAS.

The updated policy will be submitted to the Financial Reporting Council for approval. The Board plans to undertake an assessment in accordance with the approved policy and release its assessment criteria and conclusions for public comment.

Action:

Staff

## **Goodwill and Impairment**

### Agenda Item 9

The Board discussed issues arising from research considering analysts' perspectives on impairment and methods that they adopt to identify impairment on a timely basis as well as additional financial statement disclosures that could be useful to users.



The Board decided to make recommendations to the IASB in relation to the following:

- (a) clarifying the purpose of the impairment test;
- (b) conducting further research on developing a modified single model approach, rather than permitting either the Value in Use model or the Fair Value less Costs of Disposal model;
- (c) exploring aligning impairment testing with the level at which an entity's results are viewed and decisions are made internally (i.e. reconsidering the need for cash-generating units as the aggregation level); and
- (d) enhanced disclosure requirements for acquisitions and impairments.

The Board also decided to publish the research.

Action: Staff

## **Australian Financial Reporting Framework – Approach to NFP Entities**

Agenda Item 10

The Board noted that State and Territory consumer protection agencies are supportive of working with the Board and other not-for-profit (NFP) regulators on the issue of simplifying financial reporting in the NFP private sector.

Action: Staff

## **IPSASB Report**

Agenda Item 11

The Board noted the report from Mike Blake (who is also Deputy Chair of the IPSASB) on the IPSASB's December 2018 meeting. In particular, the Board noted that the IPSASB's work on public sector measurement issues and its Exposure Draft ED 67 *Collective and Individual Services and Emergency Relief* could be useful to the Board.

## **International Consultation Documents**

Agenda Item 12

The Board decided not to comment on the following international consultation documents:

- (a) the IASB Exposure Draft ED/2018/2 addressing costs considered in assessing whether a contract is onerous; and
- (b) the IPSASB Exposure Draft ED 67 addressing collective and individual services and emergency relief.



The Board agreed to reconsider making submissions should any significant domestic issues be raised during the respective comment periods.

Action: Staff  
Chair

## **Other Business**

Agenda Item 13

The Board noted the submissions by and to the AASB, the IASB and IFRIC Updates, ASIC reports and other materials.

## **Work Program and Priorities**

Agenda Item 14

The Board noted the work program and communications report and discussed project priorities.

## **Management Commentary**

Agenda Item 16

The Board noted the importance of the IASB's Management Commentary project to Australia, to improve the information provided in entities' operating and financial review (OFR). The Board noted the Banking Royal Commission's emphasis on regulators enforcing legislation, the non-mandatory status of ASIC Regulatory Guide 247 *Effective disclosure in an operating and financial review*, mandatory audited management commentary requirements in the UK and Germany, and the relationship between the IASB's project and other external reporting frameworks such as that of the International Integrated Reporting Council.

## **Close of Meeting**

The Chair closed the meeting at 4:50 pm on Tuesday, 19 February 2019.

## **Approval**

Signed by the Chair as a correct record,  
this 30<sup>th</sup> day of April 2019