



Hot Topics

Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

The AASB has decided to introduce the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) into Australia and improve the consistency, comparability and transparency of financial reports of for-profit private sector entities required to comply with Australian Accounting Standards (AAS).

The AASB released a Consultation Paper in May 2018 which proposes a two-phased approach to apply the RCF in Australia and addresses two key issues, the:

1. **reporting entity concept clash** between what is in current Australian requirements versus what is in the IASB's RCF
2. **special purpose financial statements (SPFS) problem**, caused by Australia's unique accounting requirements that allow entities to self-assess as 'Reporting entities' or not; and prepare free-form SPFS for entities who have self-assessed as 'Non-reporting entities'.

The SPFS issues have resulted in vastly divergent reporting practices, additional risk for Directors, preparers and auditors and have been questioned for many years now by the AASB, regulators, the media and other key stakeholders.

AASB Research Reports have highlighted the inconsistent application of Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and the lack of trust and transparency caused by SPFS in all sectors of the Australian economy.

Internationally, Australia's unique self-assessment option and ability to prepare SPFS was rejected by the IASB who stated it does not have the authority to determine who must, should, or could prepare such statements. Accordingly, anyone required to prepare financial statements in accordance with IFRS is preparing general purpose financial statements (GPFS).

The AASB's two-phased approach, will result in the end of the ability to prepare SPFS for for-profit private sector entities required to comply with AAS. It will result in two tiers of GPFS for for-profit private sector entities:

1. **Tier 1 GPFS** for all publicly accountable entities and those that voluntarily prepare Tier 1 GPFS. The Tier 1 framework is IFRS compliant.
2. **Tier 2 GPFS "Simplified Disclosure framework"** for all other for profit entities required to comply with AAS (with the exception of trusts and other entities with non-legislative requirement which meet certain criteria), which will be based on the IFRS for SME, but will require compliance with all recognition and measurement requirements of AAS (replacing the current RDR framework).

Not-for-profit and public sector entities

The AASB recognised the journey for NFP sector entities would be very different to that of the for-profit private sector, and the remove of special purpose financial statements would have little impact in the public sector. Therefore, AASB decided that it would be more appropriate to address the implementation of the revised Conceptual Framework for not-for-profit and public sector entities via separate targeted consultations undertaken as part of the broader Financial Reporting Framework project.



Current status of Board discussions

The Exposure Draft for removing SPFS was considered by the AASB in draft at its June 2019 meeting and is expected to be issued in August 2019 with 120 days comment period.

The AASB is expected to issue an exposure draft in July 2019 proposing that entities lodging SPFS with either ASIC or the ACNC make an explicit statement of compliance or non-compliance with recognition and measurement requirements in AAS and 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. This is an interim step taken by the Board (whilst the project on replacing SPFS is underway) to address concerns from users about the lack of transparency and difficulty in determining whether a set of SPFS complies with the R&M requirements in AAS or not.

See [Action Alerts](#) for further information

Additional materials

Below are links to additional materials that will assist in understanding the broader issues currently being addressed by the AASB in the Consultation Paper. AASB Staff will continue to update these materials throughout the consultation journey.

Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

- [AASB Staff Paper](#) *For Profit User and Preparer Survey Report* [December 2018]
- [AASB Staff FAQ](#) [October 2018]
- [AASB roundtables summaries](#): Enhancing financial reporting and replacing Special Purpose Financial Statements- Phase 2 summaries [September 2018]
- [AASB roundtables slide pack](#): Enhancing financial reporting and replacing Special Purpose Financial Statements- Phase 2 proposals [September 2018]
- AASB Webinar: view the [webinar](#) and download the [presentation](#)
- [Summary document](#): outline of feedback received during the May briefing sessions
- [AASB Briefing](#): Replacing the reporting entity concept and removing the option for special purpose financial statements [May 2018]
- [7 Key Facts](#): Applying the revised Conceptual Framework in Australia [May 2018]
- [Consultation Paper](#) [May 2018]

AASB Research Reports

- [AASB Research Report No 10](#) *Legislative and Regulatory Financial Reporting Requirements* [March 2019]
- [AASB Research Report No 7](#) *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies* [May 2018]
- [AASB Research Report No 6](#) *Financial Reporting Requirements Applicable to Public Sector Entities* [May 2018]
- [AASB Research Report No 5](#) *Financial Reporting Requirements Applicable to Charities* [October 2017]
- [AASB Research Report No 1](#) *Application of the Reporting Entity Concept and Lodgment of Special Purpose Financial Statements* [June 2014]



AASB Discussion Papers

- [AASB Discussion Paper](#) *Improving Financial Reporting for Australian Public Sector* [June 2018]
- [AASB Discussion Paper](#) *Improving Financial Reporting for Australian Charities*
 - [AASB Submission to ACNC Legislative Review](#) [February 2018]
 - [Appendices to Charity Discussion Paper](#) [November 2017]

AASB Staff Papers

- [AASB Staff Paper](#) *For Profit User and Preparer Survey Report* [December 2018]
- [AASB Staff Paper](#) *Comparison of Standards for Smaller Entities* [April 2018]

Podcast

In this [28-minute podcast](#) AASB Chair Kris Peach speaks with *Accountants Daily* on issues around applying the IASB's Revised Conceptual Framework and solving the reporting entity and special purpose financial statement problems. Also discussed are the upcoming accounting standards on financial instruments, revenue and leases.

Media and Opinion Pieces in support of the proposals

AASB Staff are aware of the following articles available in mainstream media that support the AASB's proposals. This is not an exhaustive list, and the AASB is aware that this does not necessarily depict the full story. The AASB strongly encourages stakeholders to form their views on this topic based on the full range of research and empirical evidence available.

- [The End is Nigh – No more special purpose financial statements \(SPFS\) for many entities](#)
Carmen Ridley, AASB Member, *CaseWare*, May 2018
- [Mid-tier flags 'monumental' financial reporting changes](#)
Jotham Lian, *Accountants Daily*, May 2018
- [Big Four: guardians of the guards infiltrate the infiltrators](#)
Michael West, *Michael West*, May 2018
- [When everyone's special, no one is](#)
Ceri-Ann Ross, Reporting Leader – Chartered Accountants Australia and New Zealand, *LinkedIn*, March 2018
- [Special purpose financial statements: where to from here?](#)
Kris Peach & Danielius Valuckas, *Public Accountant*, November 2018

If you have an article or a report addressing this topic that you would like to share, please email Kimberly Carney, AASB Project Manager via standard@asb.gov.au.