



## Hot Topics

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

The AASB is exploring how to introduce the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) into Australia and improve the consistency, comparability and transparency of financial reports prepared in accordance with Australian Accounting Standards (AAS).

To start this conversation, the AASB released a Consultation Paper in May 2018 which proposes a two-phased approach to apply the RCF in Australia and to address 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, would result in the end of the ability to prepare SPFS for entities required by legislation or otherwise to prepare financial statements in accordance with AAS. It will result in two robust tiers of GPFS:

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** for all other entities, which will consist of either the existing Tier 2 GPFS Reduced Disclosure Requirements OR a new Tier 2 GPFS Specified Disclosure Requirements depending on the outcome of the Consultation Paper. Both of these Tier 2 frameworks are based on IFRS, modified where appropriate by the AASB for not-for-profit private and public sector amendments.

### Additional tiers of reporting

The AASB would be very supportive if objective criteria and thresholds are determined from findings and recommendations of the ACNC's legislative review, developing another tier of reporting (eg modified accruals or cash accounting for small charities in the not-for-profit sector). This alternative has not been included in the Consultation Paper as ACNC's legislative review has not been finalised.



## 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 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 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

*If you have an article or a report addressing this topic that you would like to share, please email Justine Keenan, AASB Senior Project Manager via [standard@asb.gov.au](mailto:standard@asb.gov.au).*