



For Profit Phase 2: Adopt RCF and remove SPFS for other FP entities

Project summary

The objective of this project is to apply the IASB's revised Conceptual Framework for Financial Reporting (RCF) in Australia and improve the consistency, comparability and transparency of financial reports prepared in accordance with Australian Accounting Standards (AAS).

The aim of this project is to:

- (a) replace the existing AASB Framework for the Preparation and Presentation of Financial Statements with the RCF;
- (b) update other AAS for consequential changes that arise from the revised Conceptual Framework; and
- (c) solve the reporting entity concept and special purpose financial statement (SPFS) problems.

The AASB released its consultation paper in May 2018 which highlights the issues that would arise for Australian entities when the RCF is applied in Australia.

The AASB's two-phased approach would result in the removal of the ability to prepare SPFS for entities required by legislation or otherwise to prepare financial statements in accordance with AAS.

Comments on Phase 2 were due by 9 November 2018.

Project contact

Kimberley Carney
Project Manager
kcarney@asb.gov.au

James Barden
Project Manager
jbarden@asb.gov.au

Kala Kandiah
Technical Director
kkandiah@asb.gov.au

Tom Liassis
Graduate Intern
tliassis@asb.gov.au

Project priority: High

Issued Documents

- [Consultation Paper](#) (ITC 39)
- [Hot Topic](#) – Conceptual Framework [December 2018]

Project status

- The Phase 2 submissions paper was considered at the 2019 February Board meeting.

Other

- [Podcast](#) [June 2018]
- [AASB Research Report No. 1](#)
- [AASB Research Report No. 7](#)
- [7 Key Facts Sheet](#) [May 2018]
- [AASB Staff FAQ](#) [June 2018]

AASB Outreach

- [AASB Staff Paper](#): Results from User and Preparer Surveys
- Briefings – [slide pack](#) & [summary](#) [May 2018]
- Webinar – [slide pack](#) & [recording](#) [June 2018]
- Roundtables – [slide pack](#) & [summary](#) [September 2018]
- [ITC 39 Phase 2 Submissions](#)

Board deliberations

- [Staff paper](#): Phase 2 Submissions

AASB Communications

- AASB Submission to Treasury on *Reducing the financial reporting burden by increasing the thresholds for large proprietary companies*

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

Latest project news

Date	News
21 February 2019	AASB Action Alert (Issue No: 196)
14 November 2018	AASB Action Alert (Issue No: 195)
13 November 2018	Roundtables slide pack and summary available
5 September 2018	AASB Action Alert (Issue No: 194)

AASB Action Alert Update and Board Papers

Meeting Date	Update
February 2019	<p>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:</p> <ul style="list-style-type: none"> ▪ 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. <p>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 Banking Royal Commission findings 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.</p> <p>Accordingly, the Board determined the following:</p> <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> (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); 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 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 that, based on feedback received from various forums and the preliminary findings of the AASB's research into the level of compliance with R&M of ASIC regulated entities, are already complying with R&M 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 for consolidation by a parent entity or US GAAP, 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 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 project in advance of the NFP 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 to 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.

November 2018	<p><u>4.1</u> Staff Paper: Phase 2 submissions</p> <p>The Board noted feedback received during the Board’s September roundtables on enhancing financial reporting and replacing special purpose financial statements for for-profit entities.</p> <p><u>4.3</u> For noting: ITC 39 <i>Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems</i></p> <p><u>9.0</u> Cover Memo – ITC 39 Phase 2 – Summary of Feedback received from Phase 2 Outreach in September</p>
September 2018	<p>The Board decided that the most appropriate way to facilitate the Board’s two-phase approach to applying the IASB’s <i>Conceptual Framework for Financial Reporting</i> (RCF) as proposed in ITC 39 <i>Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems</i> would be:</p> <p>(a) to have two conceptual frameworks until Phase 2 of the project is completed</p> <p>(b) to have one set of Australian Accounting Standards, including Interpretations (AAS).</p> <p><u>4.2.1</u> Full written submission received from the Australian Banking Association on ITC 39</p> <p><u>4.2.2</u> Full written submission received from the Australian Securitisation Forum on ITC 39</p> <p><u>4.3</u> For noting: ITC 39 <i>Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems</i></p>
June 2018	<p>The Board decided to issue a high-level summary of its recent briefing sessions on the Consultation Paper.</p> <p>Outreach is continuing, with the Board particularly interested in stakeholders’ views on what transitional relief might be helpful and the potential implementation costs where entities are affected.</p>
May 2018	<p>The Board approved to issue its Consultation Paper.</p> <p>The Consultation Paper explains the AASB’s objective to make the RCF applicable in Australia, describes a two-phase approach to solving the following two problems, and presents five options considered by the Board for addressing the two problems.</p>
February 2018	<p>The Board decided that the Consultation Paper should further emphasise the background and objective of the project, the core problems it is trying to solve and the need for the AASB’s action. The Board also highlighted the need to explain the considered options and the project’s timeline for consultation on these issues.</p> <p><u>4.0</u> Cover Memo – Conceptual Framework Project</p> <p><u>4.1</u> Ballot Draft of AASB Consultation Paper <i>Conceptual Framework for Financial Reporting – Application of the IASB’s Revised Conceptual Framework in Australia</i></p> <p><u>4.2</u> Proposed project timeline and Conceptual Framework Project Advisory Panel</p>

December 2017	<p>The Board noted major issues that Australian entities will face when the IASB's revised <i>Conceptual Framework for Financial Reporting</i> (RCF) is issued. The Board considered staff's proposals and directed staff to draft a consultation paper to be issued at the beginning of 2018.</p> <p><u>10.1</u> Staff Paper – Implications of the forthcoming IASB Conceptual Framework</p>
May 2017	<p>The Board considered an updated project plan. In particular, staff will work in conjunction with other key regulatory bodies and stakeholders to determine user needs for information and to consider the costs and benefits of the financial reporting requirements for all Australian entities. Extensive research work, including comparing the existing reporting requirements with other jurisdictions, and consultation activities are underway to better understand and assess the criteria for determining (a) which entities are required to prepare general purpose financial reports and (b) the reporting requirements applicable to entities.</p> <p><u>7.1</u> Staff Paper: Australian Financial Reporting Framework</p>
June 2016	<p>Staff outlined the continuing development of benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will provide a basis for further consultation with regulators and other stakeholders. No decisions were made.</p> <p><u>7.0</u> Cover memo – Australian Financial Reporting Framework</p> <p><u>7.2</u> Updated project plan</p>
April 2016	<p>Staff outlined the continuing work to develop benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will support further consultation with regulators and other stakeholders. No decisions were made.</p>
December 2015	<p>The Board received an update on the project addressing the Australian financial reporting framework in terms of which entities should prepare and lodge general purpose financial statements and the content of such financial statements. No decisions were made.</p> <p><u>7.1</u> Staff Paper – Financial Reporting Framework</p>
May 2015	<p>The Board supported the project to reconsider the Australian financial reporting framework in terms of which entities should prepare financial statements and the content of those financial statements. The overall aim of the project is to clarify and simplify the financial reporting framework, so that objective criteria determine the entities required to prepare general purpose financial statements. The project will cover both corporate and non-corporate entities, in conjunction with government policymakers and regulators.</p> <p>The Board noted the project plan, which encompasses the work to reconsider the reduced disclosure requirements for Tier 2 entities (see separate item) and raises the possibility of a third tier of reporting requirements.</p> <p><u>11.1</u> Memorandum – Financial Reporting Framework</p> <p><u>11.2</u> Project Plan</p>