

Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

Comments to the AASB by 15 November 2019



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 15 November 2019.

Formal Submissions

Submissions should be lodged online via the “Work in Progress – Open for Comment” page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

The publication of an Exposure Draft (ED) is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. EDs are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

What we are proposing

This ED proposes:

- (a) amendments to the Standards (via AASB 1057 *Application of Australian Accounting Standards*) and the *Conceptual Framework for Financial Reporting (Conceptual Framework)* so that they apply explicitly to:
 - (i) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards (with the previous limitation to entities with public accountability removed); and
 - (ii) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020;
- (b) to provide relief from restating and presenting comparative information in the year of transition for entities transitioning to full recognition and measurement (R&M) requirements (refer to the transition requirements section below).

ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (August 2019), which should be considered in conjunction with this ED, proposes:

- (a) a new Tier 2¹ disclosure framework that applies to all Tier 2 entities², including not-for-profit (NFP) private sector entities and public sector entities (for-profit and not-for-profit, other than the Australian Government and State, Territory and Local Governments);
- (b) a new set of principles and methodology to be used in determining Tier 2 disclosures that are necessary for meeting user needs and which are based on the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs Standard)*, to replace the current Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR) framework;
- (c) new Tier 2 disclosures to be referred to as Australian Accounting Standards – Simplified Disclosures that are the result of applying those principles; and
- (d) a new approach to presenting the Tier 2 disclosure requirements in AAS. This approach will result in a separate disclosure standard (referred to as 'Simplified Disclosure Standard') for entities that report under Tier 2 of the differential reporting framework set out in AASB 1053.

The AASB is using two EDs as the application of each ED is different and the outcomes of ED 295 are likely to be of interest to the International Accounting Standards Board (IASB) as they are commencing a similar project which will consider permitting subsidiaries that are small and medium-sized entities to apply the R&M requirements of International Financial Reporting Standards (IFRS Standards) with the disclosure requirements of the IFRS for SMEs Standard.

1 Currently, Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

(See paragraph 7 of AASB 1053 *Application of Tiers of Australian Accounting Standards*.) However, the AASB is considering what the most appropriate Tier 2 GPFS disclosure framework may be.

2 See paragraph 13 of AASB 1053.

The consequences of the proposals in this ED and ED 295 would be:

- (a) the minimum requirements proposed for general purpose financial statements (GPFS) is a new Tier 2 GPFS framework which requires compliance with all R&M requirements in AAS, and simplified disclosures based on the IFRS for SMEs Standard. An entity may voluntarily elect to prepare Tier 1 GPFS, consisting of full recognition, measurement and disclosure;
- (b) all for-profit private sector entities lodging financial statements with the Australian Securities and Investments Commission (ASIC) will prepare some form of GPFS;
- (c) all for-profit private sector entities required by other Australian legislation to prepare financial statements in accordance with AAS or accounting standards will prepare some form of GPFS; and
- (d) all for-profit private sector entities that are trusts, partnerships, joint arrangements or self-managed superannuation funds, as well as entities subject to other requirements that have constituting or other documents (such as lending agreements) created or amended on or after 1 July 2020 that specifically require financial statements to be prepared in accordance with AAS, will prepare some form of GPFS.

Why we are making these proposals

Summary

These proposals are being made in conjunction with ED 295 to:

- (a) remove the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare SPFS. This includes the approximately 7,295 large proprietary, unlisted public and small foreign-controlled companies that are currently preparing SPFS that publicly lodge financial statements with ASIC,³ and will improve the consistency, comparability, transparency and enforceability of publicly lodged financial statements. This will better meet the needs of users who are accessing these publicly lodged financial statements or specifically requesting financial statements that comply with AAS or accounting standards as referred to in legislation. It will also simplify financial reporting requirements and reduce risks for directors, auditors and regulators which arise due to uncertain reporting requirements;
- (b) provide Tier 2 GPFS reporting requirements for those for-profit entities that would be prohibited from preparing special purpose financial statements (SPFS) under the AASB's proposals, that appropriately balance the needs of users with the costs of moving from SPFS to Tier 2 GPFS;
- (c) complement the recent increase in the thresholds used for determining what constitutes a large proprietary company, which apply from 1 July 2019. As set out in the Explanatory Memorandum accompanying the increase, the revised thresholds were set with the expectation of capturing entities with economic significance and noted the larger the entity, the more likely it is that there are GPFS users. These are key criteria in the AASB's Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* for determining whether or not an entity is a reporting entity;
- (d) require that for-profit private sector entities that are publicly lodging financial statements comply with all the R&M requirements in AAS, thereby effectively mandating the recommended guidance relating to the application of R&M requirements in ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85). Currently, the R&M recommendations in RG 85 are not being complied with by approximately 600 to 1,700 specified for-profit entities³ that are currently lodging SPFS with ASIC.⁴ Therefore these entities could be required to change their accounting policies to comply with the R&M requirements in AAS and provide additional disclosures in their financial statements. There are an additional approximately 5,500 specified for-profit entities currently preparing SPFS that already comply with the R&M requirements in AAS. These entities could be required to provide additional disclosures in their financial statements. The AASB noted the strong preference expressed by the majority of respondents to the AASB's Invitation to Comment ITC 39 *Consultation Paper – Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* for a for-profit financial reporting framework to retain full R&M requirements in AAS for Tier 1 GPFS and Tier 2 GPFS, on the basis that it would enhance the comparability, consistency and transparency of the resulting financial statements;

³ Subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company.

⁴ AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019). Research Report 12 examines the financial reporting practices of for-profit entities, including large proprietary companies, small foreign-controlled proprietary companies, for-profit unlisted public companies and other small proprietary companies, lodging financial statements with ASIC. The findings of Research Report 12 considered in this ED are limited to those that relate to entities within the scope of the proposals in this ED: large proprietary companies, small foreign-controlled proprietary companies and for-profit unlisted public companies limited by guarantee. These entities are referred to herein as the 'specified for-profit entities'.

- (e) remove the inconsistency of the term ‘reporting entity’ between SAC 1 and some AAS, and the IASB’s revised Conceptual Framework titled *Conceptual Framework for Financial Reporting* (March 2018) (the revised Conceptual Framework);
- (f) advance the principles established in the *Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* that legislation should avoid “exceptions” such as the self-assessment of financial reporting requirements and the AASB’s legislative mandate to promote comparability through accounting standards;
- (g) reduce the reporting burden of for-profit and NFP entities using the current Tier 2 GPFS framework for preparing GPFS as a result of the AASB’s post-implementation review of the RDR framework; and
- (h) maximise the use of relevant IFRS Standards-based materials by more closely reflecting the IFRS for SMEs Standard disclosures in the proposed Tier 2 GPFS reporting requirements, and encourage the IASB to continue with its project to enable entities to use full IFRS R&M requirements with the IFRS for SMEs Standard disclosures by demonstrating what the outcomes of such a project could be.⁵

The AASB has not performed a full assessment of the costs of transition from SPFS to Tier 2 GPFS, along with ongoing compliance costs resulting from the application of the proposals in this ED at this time, as this assessment will depend on the final proposals, if any, resulting from this consultation.

Background

Currently, many entities self-assess that they are not reporting entities as defined in SAC 1 and therefore elect to prepare SPFS. The ability of entities to self-assess their reporting requirements under the Australian ‘reporting entity’ concept has led to the more fundamental ‘SPFS problem’, when two similar entities might prepare very different sets of financial statements, one preparing GPFS using a robust and consistent framework, and the other preparing SPFS with self-selected requirements. This reduces the comparability of financial reporting for entities of similar economic circumstances and undermines the fundamental principles of consistency, comparability, transparency and enforceability.

The ability of directors or those charged with governance to self-assess an entity’s reporting requirements when the entity is required to prepare financial statements that comply with AAS or accounting standards as referred to in legislation has been seen as a long-standing “right” and attempts at reform over the past decade have been resisted.⁶

The issues with SPFS

The evidence obtained from extensive academic research, outreach activities, and user and preparer surveys, identifies a range of fundamental issues with the application of the Australian reporting entity concept, as well as with the quality of SPFS. For example:

- (a) research has suggested that the reporting entity concept is neither well-understood nor always applied as intended, leading to entities inappropriately lodging SPFS on the public record.⁷ Evidence from ASIC indicates that financial statements of specified for-profit entities are accessed more than 98,000 times per annum, indicating there are users of SPFS that are lodged with ASIC.⁸ More specifically:
 - (i) unlisted public companies by definition have more than 50 non-employee shareholders, indicating widespread users who cannot command specific information to meet their needs;
 - (ii) small foreign-controlled proprietary companies are required to report because of their significant public policy interest as indicated by current regulatory scrutiny, such as in the *Senate Economics References Committee Report on Tax Avoidance* and the recent legislation requiring all Significant Global Entities (SGEs) to lodge GPFS with the Australian Taxation Office (ATO). Public interest is a key criterion in SAC 1 for determining whether or not an entity is a reporting entity, and whether they are required to prepare GPFS; and

⁵ In March 2019, the IASB added a project [Subsidiaries that are SMEs](#) to its research agenda. The objective of the project is to develop a proposal permitting subsidiaries that are SMEs to apply the R&M requirements of IFRS Standards with the disclosure requirements of the IFRS for SMEs Standard.

⁶ For example, AASB Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* (May 2007), AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements* (February 2010) and ED 192 *Revised Differential Reporting Framework* (February 2010).

⁷ ITC 12, AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements* (February 2010) and ED 192.

⁸ Of the 98,000 copies of financial statements purchased from ASIC, 80% were of proprietary companies, 16% were of unlisted public companies and 4% were of small foreign-controlled companies. Of these 98,000 copies of financial statements, approximately 29,000 were purchased by public users through ASIC connect and not by data aggregators.

- (iii) the Explanatory Statement which accompanies the recent increase in the thresholds used for determining what constitutes a large proprietary company clearly indicates the new thresholds were set to reflect the “economic significance” of the entities captured. This is another key criterion in SAC 1 for deciding whether or not an entity is a reporting entity;
- (b) ASIC and other regulators have advised that the reporting entity concept is not enforceable as it is too judgemental;
- (c) users of SPFS have indicated consistency, comparability and transparency are important to them, with particular emphasis on consistent application of the R&M requirements in AAS;
- (d) only 76%⁹ of the specified for-profit entities lodging SPFS with ASIC in 2018 clearly followed the recommended guidance in RG 85 to comply with all the R&M requirements in AAS, however in 34%¹⁰ of cases, it was initially unclear whether or not they complied with the R&M requirements in AAS. This means that SPFS users could not determine what additional information they might require, and it was difficult to tell whether the entity should be preparing consolidated financial statements or applying the equity method of accounting;
- (e) the use of SPFS by the specified for-profit entities lodging with ASIC has increased from 66% in 2011 to 71% in 2018¹¹, despite anecdotal comments to the AASB that the preparation of SPFS had been declining. Of particular concern is the increase in use of SPFS by unlisted public companies; and
- (f) accounting standards currently only require that preparers of SPFS comply with five disclosure standards. These five disclosure standards do not constitute a financial reporting framework as they do not specify R&M requirements. The accounting policies chosen by the directors or those charged with governance determine the financial reporting framework. If the financial reporting framework is not appropriate, it is not acceptable for auditing purposes.

A range of other issues relating to the SPFS problem are addressed in the Basis for Conclusions which accompanies this ED (refer paragraphs BC14-BC40).

In summary, the ability to self-assess reporting requirements in SPFS and the inconsistent application of the R&M guidance in RG 85 means SPFS are not currently consistent, comparable, transparent or enforceable.

Not-for-profit entities

After considering initial feedback on ITC 39, the results of the Australian Charities and Not-for-profits Commission (ACNC) legislative review 2018: *Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislation Review*, research initiated by the AASB, and *The AASB’s Not-for-Profit Entity Standard-Setting Framework*, the AASB determined that it was more appropriate to progress reform in the NFP private and public sectors via separate targeted consultations.

The AASB noted that in particular, in the charity sector there is significantly lower levels of compliance with the R&M requirements in AAS, and entities preparing financial statements for lodgement with the ACNC are often considerably smaller and less well-resourced. **Accordingly, this ED contains no proposals for the NFP sector.** However, ED 295 does propose a reduction in the disclosure requirements for NFPs that are currently preparing Tier 2 GPFS using the RDR framework.

Refer to paragraphs BC65-BC67 in the Basis for Conclusions which accompanies this ED for additional discussion.

Revised conceptual framework

Consistent with the Financial Reporting Council directive and *The AASB’s For-Profit Entity Standard-Setting Framework*, AAS are based on IFRS Standards to the maximum extent possible for for-profit private sector entities. The IASB’s revised Conceptual Framework concept of ‘reporting entity’ and usage of that term is different from that in SAC 1 and some AAS.¹² The revised Conceptual Framework reporting entity definition does not determine who should prepare GPFS, as it is assumed that legislation requiring the preparation of financial statements in accordance with accounting standards is requiring GPFS. Thus it uses the term ‘reporting entity’ to determine the boundary of what is reported (ie consolidation of controlled entities).

SAC 1, however, uses the term ‘reporting entity’ to explain the concept of who should prepare GPFS. This has led to confusion and diversity in practice regarding whether consolidation and equity accounting should be applied in SPFS

⁹ Research Report 12.

¹⁰ Research Report 12.

¹¹ Research Report 12.

¹² The term ‘reporting entity’ as defined by the revised Conceptual Framework is also inconsistent with the definition of reporting entity in AASB 1057.

publicly lodged with ASIC. RG 85 notes that “some companies have failed to prepare consolidated financial statements on the grounds that the parent entity was not a reporting entity”¹³ and that the “sole determining factor as to whether consolidated financial statements are required is whether the **group** is a reporting entity” (emphasis added).¹⁴ The revised Conceptual Framework and AASB 10 *Consolidated Financial Statements*, however, require consolidation if an entity is a parent, with limited exceptions.¹⁵

The likelihood of inconsistencies arising from the different uses of the term ‘reporting entity’ will also increase when IFRS Standards are amended or revised and there are more references in IFRS Standards to the term ‘reporting entity’ as defined in the revised Conceptual Framework.

Refer to paragraphs BC41-BC48 in the Basis for Conclusions which accompanies this ED for additional discussion.

ITC 39 proposals and feedback

In ITC 39, the AASB proposed removing the ability of certain for-profit entities to prepare SPFS, instead requiring them to prepare some form of Tier 2 GPFS – either RDR as currently exists in AASB 1053 or an alternative Tier 2 GPFS framework which combined full R&M requirements with specified disclosures from some Accounting Standards, including consolidation and equity accounting where applicable (‘Specified Disclosure Requirements’; SDR).

Feedback received on the proposals in ITC 39 gathered through written submissions, roundtable discussions¹⁶ and a user and preparer survey¹⁷ indicated:

- (a) the majority of respondents supported removing the ability of certain for-profit entities to prepare SPFS;
- (b) the majority of respondents supported the Tier 2 GPFS framework complying with the R&M requirements in AAS;
- (c) the majority of respondents did not support either the current RDR framework or the proposed alternative SDR framework. Instead, respondents felt that something in between the RDR and SDR framework would better satisfy user needs, reinforcing the relevance of the feedback received on ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*;
- (d) some respondents were concerned that the proposals were not also considering who should be publicly lodging financial statements, noting in particular that the thresholds used for determining what constitutes a large proprietary company have not been reviewed for a number of years;
- (e) there were no clear views on what additional transitional relief, if any, is needed;
- (f) respondents were concerned about the effect of the proposals on entities with a non-legislative requirement to prepare financial statements that comply with AAS (ie entities with trust deeds and other constituting documents inadvertently requiring compliance with AAS). Respondents were also concerned about the complexities and the potential costs involved in changing such documents;
- (g) a small number of respondents wanted the AASB to further consider the IFRS for SMEs Standard as an optional Tier 2 GPFS framework alternative or as the Tier 2 GPFS framework;
- (h) a small number of respondents asked for a financial reporting framework for those entities not required by legislation to prepare or lodge financial statements; and
- (i) some respondents thought more evidence of user needs was required.

The AASB received 33 formal submissions on ITC 39 (relevant to this phase of the project, and including six users), responses from 37 users and 49 preparers to user and preparer surveys, feedback from 106 stakeholders who attended roundtable discussions (including five users) and other stakeholders who participated in targeted outreach activities.

To respond to the feedback:

- (a) this ED’s proposals reflect user feedback that comparability of R&M is a key requirement. Accordingly, given current levels of compliance with the R&M requirements in AAS in SPFS, the IFRS for SMEs Standard is not a preferred option for a revised Tier 2 (see below for more detail);

¹³ RG 85, paragraph 5.1.

¹⁴ RG 85, paragraph 5.5.

¹⁵ Paragraphs 4, Aus4.1, Aus4.2 and 4B of AASB 10 outline the exemptions and exceptions whereby a parent entity need not present consolidated financial statements.

¹⁶ See [Enhancing financial reporting and replacing SPFS – Roundtable Summaries](#).

¹⁷ AASB Staff Paper *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements – For-profit User and Preparer Survey Results* (December 2018)

- (b) ED 295 proposes further reductions to the disclosures that apply to Tier 2 entities compared to the current RDR framework, using a new set of principles and methodology in determining the Tier 2 disclosures that are necessary for meeting user needs as set out in ED 295. Using the IFRS for SMEs Standard as a base for the disclosures also reflects the evidence obtained by the IASB on the needs of users of small and medium-sized entity financial statements;¹⁸
- (c) this ED’s proposals complement recent increases in the thresholds used in the *Corporations Act 2001* for determining what constitutes a large proprietary company, which target financial reporting requirements at “economically significant” companies;
- (d) this ED proposes transitional relief in addition to that which is currently available in AASB 1 *First-time Adoption of Australian Accounting Standards*, to assist entities with the proposed transition from SPFS to Tier 2 GPFS. This proposed transitional relief is discussed below;
- (e) to avoid entities unnecessarily having to prepare GPFS where the preparation of GPFS is not specifically intended, this ED proposes an exemption for entities with only a non-legislative requirement to prepare financial statements that comply with AAS (for example trusts, partnerships, joint arrangements and self-managed superannuation funds, as well as entities subject to other requirements such as lending agreements) from the requirement to prepare GPFS. This exemption would, however, only apply where the constituting document (or another document) requiring them to prepare financial statements that comply with AAS was created or amended before 1 July 2020 (the proposed effective date of the proposals in this ED). Users of such entities’ financial statements are expected to be able to specify their financial reporting requirements; and
- (f) directors or those charged with governance of entities not in the scope of the proposals in this ED can continue to use the existing five disclosure Standards¹⁹ which currently apply to SPFS, the Tier 2 GPFS framework, the RG 85 guidance, the IFRS for SMEs Standard, the Tier 3 or Tier 4 standards issued in New Zealand, the UK FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other sources to inform their choice of special purpose financial reporting framework. However, as there should be limited users of these financial statements, the AASB expects that the directors and those charged with governance of such entities would be consulting with their users as to their needs.

Refer to paragraphs BC51-BC60 in the Basis for Conclusions which accompanies this ED for additional discussion.

IFRS for SMEs Standard

The AASB reconfirmed that for the following reasons the IFRS for SMEs Standard is not its preferred Tier 2 option for the for-profit private sector in Australia:

- (a) the IFRS for SMEs Standard has different R&M requirements compared to AAS. To meet user needs for comparability, all for-profit private sector entities within the scope of this ED would need to apply the IFRS for SMEs Standard (with it being the only Tier 2 GPFS framework), or a third tier of GPFS reporting would need to be created. To achieve a consistent Tier 2 GPFS framework and implement the IFRS for SMEs Standard, approximately 8,800 of the 10,500 specified for-profit entities lodging financial statements with ASIC (subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company) would need to change their accounting policies to adjust for the different R&M requirements in the IFRS for SMEs Standard. That is, all of the specified for-profit entities currently preparing Tier 1 GPFS, Tier 2 GPFS or SPFS that comply with all the R&M requirements in AAS would need to change their accounting policies, not just those entities currently preparing SPFS that are not complying with the R&M requirements in AAS.

In comparison only approximately 600 (being the 10% of the specified for-profit entities that currently don’t comply with the R&M requirements in AAS) and potentially up to an additional 1,000 (being the 14% of specified for-profit entities where it is unclear whether or not they have complied with the R&M requirements in AAS) would be required to change their accounting policies to align with the R&M requirements in AAS;

- (b) there is no need for a third tier of GPFS reporting as approximately 98.7% of the 840,000 trading entities only have an obligation to prepare and lodge a tax return with the ATO. Further, creating a third tier would require objective criteria on which to make this separation, and Treasury has recently consulted on the thresholds used for determining what constitutes a large proprietary company and determined there should only be a large and small distinction, ie two groups or tiers rather than three. Also, small foreign-controlled entities would likely be required to use the R&M requirements of their parent entities, that are unlikely to be using the IFRS for

¹⁸ See paragraphs BC44-BC47, BC157 and BC158 of IFRS for SMEs Standard – Part B.

¹⁹ These five Standards are AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*.

SMEs Standard, and finally, approximately 90%²⁰ of unlisted public companies preparing and lodging financial statements with ASIC already comply with the R&M requirements in AAS;

- (c) use of the IFRS for SMEs Standard would decrease harmonisation with New Zealand further than the proposals in this ED, as the New Zealand financial reporting framework for for-profit entities has only two tiers and does not use the IFRS for SMEs Standard;
- (d) transition costs, and the ongoing costs of training and maintaining either two Tier 2 GPFS frameworks or even three tiers of GPFS reporting for users, preparers, auditors and regulators for only 1.3%²¹ of actively trading entities outweighs any potential benefits; and
- (e) concerns from stakeholders about the R&M requirements of IFRS Standards being too complex largely related to the consolidation, deferred tax, financial instruments and leases requirements. The IFRS for SMEs Standard requirements for consolidation, deferred tax, finance lease accounting and fair valuing of derivatives and other complex financial instruments are not significantly different to full IFRS. In addition, the IFRS for SMEs Standard requires substantial disclosures, including related party disclosures.

Accordingly, at this time, the AASB continues to consider that the costs associated with transitioning to the IFRS for SMEs Standard for the for-profit private sector, along with related ongoing costs, exceed any benefits of having a more concise, self-contained book of standards that are substantially the same as full IFRS Standards. The AASB will however consider the suitability of the IFRS for SMEs Standard as an option for the NFP sector.

As noted above, the proposed new Tier 2 disclosure framework as set out in ED 295, which requires fewer disclosures than RDR, is based on the disclosure requirements of the IFRS for SMEs Standard.

Refer to paragraphs BC101-BC104 in the Basis for Conclusions which accompanies this ED for additional discussion.

Who will be affected

Summary of scope

	Entity	In scope/ out of scope of the project
1	Not-for-profit private sector entities including NFP entities that are companies limited by guarantee and lodging financial statements with ASIC under the <i>Corporations Act 2001</i>	Not in scope
2	Not-for-profit public sector entities	Not in scope
3	For-profit public sector entities²²	Not in scope
	For-profit private sector entities	
4	Companies lodging financial statements under the <i>Corporations Act 2001</i> , principally: <ul style="list-style-type: none"> - large proprietary companies; - unlisted public companies other than small companies limited by guarantee; - small proprietary companies controlled by a foreign company; - financial services licensees; and - small proprietary companies with crowd-sourced funding. 	In scope
	Companies preparing financial statements under the <i>Corporations Act 2001</i> because they are directed by ASIC or shareholders to prepare financial reports	This will depend on what the direction requires ²³
5	Entities with other financial reporting obligations under Federal or State/Territory legislation (ie required by legislation) to: <ul style="list-style-type: none"> - prepare financial statements in accordance with AAS or accounting standards (eg co-operatives, incorporated associations and higher education providers) 	In scope

²⁰ Research Report 12.

²¹ This is subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company.

²² For-profit public sector entities can elect (voluntarily) to prepare GPFS and apply the revised Conceptual Framework, and in that case would be in the scope of the proposals – see category 8 in the table.

²³ These companies will be in scope when the direction requires financial statements to be prepared in accordance with AAS or accounting standards.

	Entity	In scope/ out of scope of the project
	- prepare financial statements that give a true and fair view without reference to compliance with AAS or accounting standards (eg gaming venue operators, internet gaming licensees)	Not in scope – each regulator to interpret the reference to ‘true and fair view’
	- prepare financial information in accordance with AAS or accounting standards but are not required to prepare financial statements as defined in paragraph 10 of AASB 101 (eg friendly societies, superannuation funds, retirement villages)	Not in scope
	- prepare financial information that gives a true and fair view but not to prepare financial statements as defined in paragraph 10 of AASB 101 (eg incorporated associations or housing societies)	Not in scope
	- prepare financial information without reference to AAS or accounting standards (eg for provision to a regulator)	Not in scope
	- keep financial records (but not prepare financial statements) (eg small proprietary companies not required by the <i>Corporations Act 2001</i> to prepare financial statements)	Not in scope
6	Entities required only by their constituting or other document (not by legislation) to prepare financial statements that comply with AAS (eg trusts, partnerships, joint arrangements and self-managed superannuation funds):	
	- existing entities – constituting or other document not created or amended on or after 1 July 2020	Not in scope
	- existing entities – constituting or other document amended on or after 1 July 2020	In scope
	- new entities – constituting or other document created on or after 1 July 2020	In scope
7	Entities required only by their constituting or other document (not by legislation) to prepare financial statements that comply with “accounting standards” (rather than AAS) (eg trusts, partnerships, joint arrangements and self-managed superannuation funds).	Not in scope
8	Entities that elect (ie voluntarily) to prepare GPFS (eg for-profit public sector entities or other for-profit private sector entities) and elect to:	
	- apply the <i>Conceptual Framework for Financial Reporting</i> (ie the revised Conceptual Framework)	In scope
	- apply the <i>Framework for the Preparation and Presentation of Financial Statements</i>	Not in scope

The examples in the table above illustrate the types of entities that would be generally covered in the category, but some entities may have different specific requirements.

Certain for-profit entities affected

The proposals in this ED apply only to the following for-profit entities:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards (see categories 4 and 5 in the Summary of scope table above);
- (b) other for-profit private sector entities that are required only by their constituting document or another document (not by legislation) to prepare financial statements that comply with AAS, provided that the relevant document was created or amended on or after 1 July 2020 (see category 6 in the Summary of scope table above); and
- (c) other for-profit entities (public sector or private sector) that elect to prepare GPFS and elect to apply the revised Conceptual Framework (see category 8 in the Summary of scope table above).

This ED does not change which entities are required by legislation to prepare financial statements – that is not the role of the AASB.

The AASB’s research indicates that approximately 7,295 specified for-profit entities currently preparing SPFS that are required to lodge financial statements with ASIC (subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company) will be impacted by these proposals. Any remaining specified for-profit entities that are required to lodge financial statements with ASIC are currently preparing either Tier 1 GPFS or Tier 2 GPFS and therefore their financial statements could either remain unchanged or reduce in accordance with the proposals outlined in ED 295.

	Increase in R&M (ie change accounting policies to comply with the R&M requirements in AAS) and disclosures (number of entities expected to be impacted)	Increase in disclosures only (number of entities expected to be impacted)	Increase in consolidation and equity accounting (ie comply with consolidation and equity accounting requirements for the first time)	Expected maximum number of entities currently preparing SPFS ²⁴
Large proprietary	351 – 901	2,765	?	3,666
Unlisted public	84 – 313	939	?	1,252
Small foreign-controlled	183 – 492	1,885	?	2,377
	618 – 1,706	5,589		7,295

For entities preparing SPFS that are already complying with the R&M requirements in AAS, and consolidating subsidiaries and equity accounting investments in associates and joint ventures, the transition from SPFS to GPFS will be limited to the provision of additional disclosures as proposed in ED 295. These are not expected to be onerous as the information is expected to be available.

The AASB did however note that some **entities** currently preparing SPFS may need to consolidate subsidiaries or equity account investments in associates or joint ventures for the first time. The AASB was unable to determine the number of entities that may be affected by this from the existing disclosures in SPFS. However anecdotally, and based on the experiences of those entities required to prepare GPFS for the first time as a result of the SGE legislation, the AASB is not aware of any significant concerns noted by these entities or the need for transitional relief in addition to that which is proposed in this ED.

Refer to paragraphs BC61-BC85 in the Basis for Conclusions which accompanies this ED for additional discussion.

For-profit entities not affected

The proposals in this ED do not apply to for-profit private sector entities (in the absence of other requirements):

- (a) that are not required by legislation to prepare financial statements in accordance with either AAS or accounting standards (see categories 4, 5, 7 and 8) in the Summary of scope table above);
- (b) with only a non-legislative requirement to prepare financial statements that comply with AAS, such as a constituting document or a lending agreement, provided that document was not created or amended on or after 1 July 2020 (see category 6 in the Summary of scope table above);
- (c) required by legislation to prepare financial information in accordance with AAS or accounting standards (ie a complete set of financial statements as per paragraph 10 of AASB 101 is not required) (see category 5 in the Summary of scope table above); and
- (d) required by legislation to prepare financial statements that give a true and fair view without reference to compliance with AAS at the same time (see category 5 in the Summary of scope table above).²⁵

The proposals in this ED also do not apply to for-profit public sector entities²⁶, as their financial reporting framework will be considered via separate targeted consultations along with NFP public sector entities.

24 This represents the maximum approximate number of specified for-profit entities that are currently preparing SPFS and that could be required to change their accounting policies to comply with the R&M requirements in AAS and/or provide increased disclosures as a result of these proposals.

25 As noted in paragraph BC69, the AASB has considered that it should be a matter for each regulator to decide how to interpret the relevant legislation in relation to ‘true and fair view’ and noted that to require compliance with AAS whenever legislation required entities to give a true and fair view could possibly have significant unforeseen consequences.

26 Unless they elect to prepare GPFS and elect to apply the revised Conceptual Framework.

Entities not covered by the proposals in this ED may continue preparing financial statements using a framework determined by the directors or those charged with governance, which they consider meets the needs of their “special purpose” users.

Refer to paragraphs BC61-BC85 in the Basis for Conclusions which accompanies this ED for additional discussion.

Not-for-profit entities

NFP entities, both private sector and public sector, are not affected by the proposals in this ED. As noted above, reforming the financial reporting framework for the NFP private and public sectors will occur via separate targeted consultations. This may result in more than two tiers of GPFS reporting for these sectors, as the requirements in these sectors are different from those for the for-profit private sector.

The Simplified Disclosure Standard proposed in the separate but related ED 295 is therefore an interim measure for NFP entities until further consultation and outreach is undertaken in regard to any financial reporting framework proposals.

Refer to paragraphs BC65-BC67 in the Basis for Conclusions which accompanies this ED for additional discussion.

Transition requirements

In order to facilitate an earlier effective date of the proposals in this ED (ie annual reporting periods beginning on or after 1 July 2020), the AASB decided to propose amendments to AASB 1. Under these amendments, an entity preparing GPFS under Tier 2 requirements for the first time would not need to restate or present comparative information as otherwise required by AAS. The date of transition would also be changed to the beginning of the reporting period, rather than the beginning of the earliest comparative period. Instead of full comparative information, the proposed amendments to AASB 1 would require entities adopting this approach to provide information for financial statement users on the adjustments required in transitioning from SPFS to Tier 2 GPFS.

The AASB noted that relief from the restatement of comparative information would be beneficial as it could reduce preparation costs whilst providing a consistent, transparent and enforceable reporting framework (despite a lack of comparability in the year of transition). The AASB considered other options for transitional relief, including allowing entities that are subsidiaries to recognise amounts based on information provided in reporting packs to their parent entity for consolidation purposes, and allowing entities to immediately write off ‘deemed goodwill’ calculated in accordance with AASB 1, Appendix C. However, the AASB considered there were insufficient compelling reasons or evidence to warrant any other transitional relief, in addition to the relief to not restate or present comparative information.

Refer to paragraphs BC112-BC122 in the Basis for Conclusions which accompanies this ED for additional discussion.

The AASB also decided to propose amendments to AASB 1053 to explicitly refer to consolidation requirements under AAS for entities transitioning from SPFS to Tier 2 GPFS generally. Refer to paragraphs BC123-BC125.

Application date

It is proposed that this Standard would be applicable to annual reporting periods beginning on or after 1 July 2020, with earlier adoption permitted.

What happens next

The AASB will consider feedback on this ED at future meetings and based on the information received will determine whether the proposals should form the basis of the amending Standard, with or without further amendment. Depending on the nature and extent of the feedback, the AASB may publish a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

We need your feedback

Comments are invited on any of the proposals in this ED by 15 November 2019. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some

or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

- 1 The proposed amendments identify the for-profit entities required to comply with Australian Accounting Standards (or accounting standards) that would no longer have the ability to prepare SPFS. Do you agree that:
 - (a) the amendments set out in this ED effectively remove the ability to prepare SPFS for the for-profit entities identified in AASB 1057 *Application of Australian Accounting Standards* as entities for which the reporting entity definition is not relevant (also identified in paragraph Aus1.1 of the *Conceptual Framework for Financial Reporting*)? If not, please provide your reasons.
 - (b) as an exception, other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS should retain the ability to prepare SPFS, provided that the relevant document was not created or amended on or after 1 July 2020? If not, please provide your reasons (see paragraphs BC73-BC83).
 - (c) for-profit public sector entities should also retain the ability to prepare SPFS as discussions about the public sector reporting framework are continuing? If not, please provide your reasons.
- 2 Have you identified any arguments additional to those addressed in the Basis for Conclusions or unintended consequences that should be considered by the AASB in determining whether the ability to prepare SPFS should be removed from certain for-profit private sector entities as set out in this ED?
- 3 Do you agree that:
 - (a) for-profit private sector entities that are neither required by legislation to prepare financial statements that comply with AAS or accounting standards nor required by a document (created or amended on or after 1 July 2020) to prepare financial statements that comply with AAS; and
 - (b) for-profit public sector entities;should be able to voluntarily prepare GPFS and in doing so apply either the *Conceptual Framework for Financial Reporting* or the *Framework for the Preparation and Presentation of Financial Statements*? Please provide your reasons, including whether there are any adverse or unintended consequences that should be considered by the AASB in determining whether the *Framework for the Preparation and Presentation of Financial Statements* should not be permitted to be applied in these circumstances.
- 4 Do you agree that entities that are not explicitly required to comply with accounting standards, but are required by legislation or otherwise to provide financial statements or financial information that gives a true and fair view, should not be covered by these proposals? If not, please provide your reasons (see paragraphs BC68-BC69).
- 5 Do you agree with the proposal to amend AASB 1 to provide optional relief from the restatement of comparative information in the year of transition from SPFS to GPFS Tier 2 (see paragraphs BC112-BC122)? If not, please provide reasons. If yes, do you agree with the proposed disclosures in relation to the comparative period (see paragraph AusE8.4 for AASB 1 on page 20)? If not, please provide your reasons. Please consider these matters in conjunction with the AASB's proposals regarding a revised Tier 2 disclosure framework as set out in ED 295.
- 6 Do you agree that additional transition relief is not required (see paragraphs BC112-BC122)? If not, what transition relief should be provided and what are your reasons?
- 7 Do you agree with the proposal to amend AASB 1053 requirements for the first-time adoption of Tier 2 reporting requirements relating to whether a parent entity has complied with AASB 10 *Consolidated Financial Statements* in its previous SPFS (see paragraphs BC123-BC125)? If not, please provide your reasons. If non-compliance with AASB 10 was the only departure from AAS in the previous SPFS, should an entity be permitted to apply AASB 1, which could allow the restatement of amounts under various transition relief options?
- 8 Do you agree with the proposed effective date of annual reporting periods beginning on or after 1 July 2020 (see paragraphs BC126-BC129), with earlier application permitted? If not, please provide your reasons.

General matters for comment

The AASB would also particularly value comments on the following general matters:

- 9 Whether *The AASB's For-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this ED?
- 10 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 11 Whether, overall, the proposals would result in financial statements that would be useful to users?
- 12 Whether the proposals are in the best interests of the Australian economy?
- 13 Unless already provided in response to matters for comment above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Contents

PREFACE

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 AASB 2019-Y REMOVAL OF SPECIAL PURPOSE FINANCIAL STATEMENTS FOR CERTAIN FOR-PROFIT
 PRIVATE SECTOR ENTITIES**

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2019-Y *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* is set out on pages 17 – 26. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2019-Y

This Standard makes amendments to the Australian Accounting Standards and other pronouncements listed on page 17 of the Standard.

These amendments explicitly extend the application of the Standards and the AASB *Conceptual Framework for Financial Reporting* (May 2019) to additional for-profit private sector entities. The amendments build upon the consequential amendments to pronouncements previously made in Accounting Standard AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*.

Main features of this [draft] Standard

Main requirements

This Standard makes amendments to the Standards (via AASB 1057 *Application of Australian Accounting Standards*) and the *Conceptual Framework for Financial Reporting (Conceptual Framework)* so that they apply explicitly to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards (with the previous limitation to entities with public accountability removed); and
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

The *Conceptual Framework* is also amended to apply to other for-profit entities (including for-profit public sector entities) that elect to prepare general purpose financial statements and to apply the *Conceptual Framework* and the consequential amendments to other pronouncements set out in this Standard, as well as in AASB 2019-1.

The applicability of the *Framework for the Preparation and Presentation of Financial Statements* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* is amended so that they continue to apply to for-profit entities that do not need to apply the *Conceptual Framework*, as well as to not-for-profit entities (subject to exceptions stated in the Standards).

Consequential amendments are made to various Standards, including amending the applicability of the ‘reporting entity’ definition in AASB 1057 so that it is not relevant to the entities noted above (all of which would apply the *Conceptual Framework*). As a consequence, the ability of such an entity to prepare special purpose financial statements is removed and it will need to prepare general purpose financial statements that comply with Australian Accounting Standards (or accounting standards, under legislative requirements).

This Standard also makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* to provide relief from restating and presenting comparative information in the year of transition for entities transitioning from special purpose financial statements to general purpose financial statements (Tier 2).

Application date

This Standard applies to annual reporting periods beginning on or after ... [1 July 2020], with earlier application permitted.

[Draft] Accounting Standard AASB 2019-Y

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-Y *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Kris Peach
Chair – AASB

[Draft] Accounting Standard AASB 2019-Y Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

Objective

This Standard amends:

- (a) the *Conceptual Framework for Financial Reporting* (May 2019);
- (b) the *Framework for the Preparation and Presentation of Financial Statements* (July 2004);
- (c) Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (August 1990);
- (d) *AASB 1 First-time Adoption of Australian Accounting Standards* (July 2015);
- (e) *AASB 10 Consolidated Financial Statements* (July 2015);
- (f) *AASB 1048 Interpretation of Standards* (December 2017);
- (g) *AASB 1053 Application of Tiers of Australian Accounting Standards* (June 2010); and
- (h) *AASB 1057 Application of Australian Accounting Standards* (July 2015);

to update the set of for-profit entities for which the reporting entity concept in SAC 1 is no longer relevant. Such entities are therefore not able to prepare special purpose financial statements when financial statements are required to comply with Australian Accounting Standards or when legislation requires financial statements to comply with accounting standards. This Standard also makes transition and consequential amendments to other Standards and pronouncements.

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in *AASB 1057 Application of Australian Accounting Standards* and the other pronouncements.

This Standard applies to annual reporting periods beginning on or after ... [1 July 2020].

This Standard may be applied to annual reporting periods beginning before ... [1 July 2020]. When an entity applies this Standard to such an annual period, it shall disclose that fact.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a pronouncement, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to the *Conceptual Framework for Financial Reporting*

Paragraphs Aus1.1 and Aus1.2 are amended.

APPLICATION

Aus1.1 This *Conceptual Framework* applies to:

- (a) for-profit private sector entities that ~~have public accountability*~~ and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements and elect to apply the *Conceptual Framework* and the consequential amendments to other pronouncements set out in Accounting Standards AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2019-Y *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

* The term 'public accountability' is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Aus1.2 This *Conceptual Framework* applies to periods beginning on or after 1 ~~July~~ January 2020. Earlier application is permitted if at the same time an entity also applies the amendments made by AASB 2019-1 and AASB 2019-Y.

Amendments to the *Framework for the Preparation and Presentation of Financial Statements*

Paragraphs Aus1.2A and Aus1.2B are amended.

Application

...

Aus1.2A This *Framework* does not apply in relation to reporting periods beginning on or after 1 ~~July~~ January 2020 to:

- (a) for-profit private sector entities that ~~have public accountability*~~ and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements and elect to apply the *Conceptual Framework for Financial Reporting* and the consequential amendments to other pronouncements set out in Accounting Standards AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2019-Y *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*;

except as otherwise required by Australian Accounting Standards.

* The term 'public accountability' is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Aus1.2B If an entity identified in paragraph Aus1.2A elects to apply the *Conceptual Framework for Financial Reporting* to an annual reporting period prior to its mandatory application for the entity ~~beginning before 1 January 2020~~, the entity shall not apply this *Framework* to that period, except as otherwise required by Australian Accounting Standards.

Amendments to Statement of Accounting Concepts SAC 1

Paragraphs 2A and 2B are amended.

Application and Operative Date

...

- 2A This Statement does not apply in relation to reporting periods beginning on or after 1 ~~July~~ January 2020 to:
- (a) for-profit private sector entities that ~~have public accountability*~~ and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
 - (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements and elect to apply the Conceptual Framework for Financial Reporting and the consequential amendments to other pronouncements set out in Accounting Standards AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework and AASB 2019-Y Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.
- ‡ The term ‘public accountability’ is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*.
- 2B If an entity identified in paragraph 2A elects to apply the *Conceptual Framework for Financial Reporting* to an annual reporting period prior to its mandatory application for the entity beginning before 1 January 2020, the entity shall not apply this Statement to that period.

Amendments to AASB 1

Paragraphs AusE8.1–AusE8.4, and a heading before paragraph AusE8.1, are added.

Australian short-term exemption from restating comparative information

- AusE8.1 Paragraphs AusE8.1–AusE8.4 apply to a for-profit private sector entity’s first Australian-Accounting-Standards reporting period beginning on or after 1 July 2020 but before 1 July 2021. Earlier application is permitted.
- AusE8.2 Paragraphs AusE8.1–AusE8.4 apply to for-profit private sector entities that:
- (a) apply Tier 2 reporting requirements (Australian Accounting Standards – Reduced Disclosure Requirements [or Australian Accounting Standards – Simplified Disclosures²⁷]) in the first Australian-Accounting-Standards financial statements; and
 - (b) prepared its most recent previous financial statements in the form of special purpose financial statements (including consolidated financial statements) that meet either or both of the following criteria:
 - (i) have not applied, or only selectively applied, the recognition and measurement requirements of Australian Accounting Standards;
 - (ii) in the case of a parent entity, have not been prepared in accordance with AASB 10 *Consolidated Financial Statements*.
- AusE8.3 Notwithstanding paragraph RDR21.1 [or section 35 in AASB 10XX *Simplified Disclosures for Tier 2 Entities*], comparative information need not be restated or presented in the entity’s first Australian-Accounting-Standards financial statements (Tier 2), except as specified in paragraph AusE8.4. Under this approach, references to the ‘date of transition to Australian Accounting Standards’ shall mean the beginning of the first Australian-Accounting-Standards reporting period. Consequently, consistent with paragraph 11, the entity shall recognise adjustments arising from any differences between the carrying amounts in its previous special purpose financial statements and its opening carrying amounts based on the retrospective

²⁷ The Tier 2 requirements are subject to AASB Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (August 2019). AASB 2019-Y when finalised would refer to the Tier 2 requirements in place at the time for the periods of its application – which might therefore refer to both sets of Tier 2 requirements.

application of Australian Accounting Standards directly in retained earnings (or, if appropriate, another category of equity) at the beginning of the first Australian-Accounting-Standards reporting period.

AusE8.4 An entity that elects to not restate and re-present comparative information in its first Australian-Accounting-Standards financial statements (Tier 2) in accordance with paragraph RDR21.1 [or section 35 in AASB 10XX] shall:

- (a) present two statements of financial position compliant with Australian Accounting Standards: as at the beginning and the end of the first Australian-Accounting-Standards reporting period;
- (b) disclose in the notes the statement of financial position (not necessarily compliant with Australian Accounting Standards) as at the end of the reporting period presented in its most recent previous special purpose financial statements, with a description of the main adjustments required to prepare the statement of financial position at the beginning of the first Australian-Accounting-Standards reporting period. An entity need not quantify those adjustments;
- (c) present two statements of profit or loss and other comprehensive income as follows:
 - (i) the statement for the first Australian-Accounting-Standards reporting period, compliant with Australian Accounting Standards; and
 - (ii) the statement presented in its most recent previous special purpose financial statements (not necessarily compliant with Australian Accounting Standards);
- (d) disclose a description of the main adjustments that would have been required to make the comparative statement of profit or loss and other comprehensive income required by paragraph (c)(ii) compliant with Australian Accounting Standards. An entity need not quantify those adjustments; and
- (e) prominently label the comparative information that is not compliant with Australian Accounting Standards as such.

Amendments to AASB 10

Paragraph Aus4.2 is amended.

Scope

...

Aus4.2 Notwithstanding paragraphs 4(a) and Aus4.1, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when the ultimate Australian parent is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.

Amendments to AASB 1048

Paragraphs 10 and AusCF10 are amended.

Conceptual framework

10 Each reference to the *Conceptual Framework for Financial Reporting* (or *Conceptual Framework*) in other Australian Accounting Standards (including Interpretations) is taken to be a reference to the relevant pronouncement listed in Table 3 below. Each row in Table 3 is to be treated as a separate provision of this Standard.

Table 3: Australian conceptual framework pronouncements

Issue Date	Title	Application Date (annual reporting periods)
<u>[Month 20XY]</u> <u>[as amended to]</u>	<u>Conceptual Framework for Financial Reporting (or Conceptual Framework)</u> <i>Note – for-profit entities applying the Conceptual Framework are set out in paragraph Aus1.1 of the Conceptual Framework</i>	<u>(beginning)</u> <u>1 July 2020</u>
[Month May 2019]	Conceptual Framework for Financial Reporting (or Conceptual Framework) <i>Note – this pronouncement is applicable only to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards and other for-profit entities that elect to apply this Framework</i>	(beginning) 1 January 2020

AusCF10 Notwithstanding paragraph 10, in respect of AusCF entities, each reference to the *Framework for the Preparation and Presentation of Financial Statements (or Framework)* in other Australian Accounting Standards (including Interpretations) is taken to be a reference to the relevant pronouncement listed in Table 3 below. Each row in Table 3 is to be treated as a separate provision of this Standard.

Table 3: Australian conceptual framework pronouncements

Issue Date	Title	Application Date (annual reporting periods)
<u>[Month 20XY]</u> <u>[as amended to]</u>	<u>Framework for the Preparation and Presentation of Financial Statements (or Framework)</u>	<u>(beginning)</u> <u>1 July 2020</u>
<u>May 2019</u> <u>[as amended to]</u>	<u>Framework for the Preparation and Presentation of Financial Statements (or Framework)</u>	<u>(beginning)</u> <u>1 January 2020</u>
June 2014 <u>[as amended to]</u>	Framework for the Preparation and Presentation of Financial Statements (or Framework)	(beginning) 1 July 2014

Amendments to AASB 1053

Paragraphs 2, 11 and 18A are amended.

Application

2 This Standard applies to¹:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) *general purpose financial statements of each ~~reporting entity~~ reporting entity;*
- (c) financial statements that are, or are held out to be, general purpose financial statements;
- (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*; ~~and~~
- (e) for-profit private sector entities that ~~have public accountability and~~ are required by legislation* to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (f) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting

Standards, provided that the relevant document was created or amended on or after 1 July 2020.

* References in this Standard to 'legislation' mean legislation of a government in Australia.

...

Application of Tier 1 Reporting Requirements

11 The following types of entities shall prepare general purpose financial statements that comply with Tier 1 reporting requirements:

- (a) for-profit private sector entities that have public accountability and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) the Australian Government and State, Territory and Local Governments.

...

First-time Adoption of Australian Accounting Standards

...

18A When applying Tier 2 reporting requirements for the first time, an entity that prepared its most recent previous financial statements in the form of special purpose financial statements:

- (a) without applying, or only selectively applying, applicable recognition and measurement requirements of Australian Accounting Standards, or, in addition or separately, if a parent entity, without presenting consolidated financial statements prepared in accordance with AASB 10 Consolidated Financial Statements if required, shall apply either:
 - (i) all relevant requirements of AASB 1; or
 - (ii) Tier 2 reporting requirements directly using the requirements in AASB 108;
- (b) applying all applicable recognition and measurement requirements of Australian Accounting Standards and, if a parent entity, presenting consolidated financial statements prepared in accordance with AASB 10 if required, shall not apply AASB 1.

Amendments to AASB 1057

Paragraphs 2, 5–10, 12, 18, 20, 22–24 and 26 and the Appendix are amended.

Application of this Standard

2 This Standard applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) *general purpose financial statements of each reporting entity*;
- (c) financial statements that are, or are held out to be, general purpose financial statements;
- (d) financial statements of General Government Sectors (GGSs) prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*; ~~and~~
- (e) for-profit private sector entities that ~~have public accountability and~~ are required by legislation* to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (f) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

* References in this Standard to 'legislation' mean legislation of a government in Australia.

...

Application of Australian Accounting Standards

- 5 Unless specified otherwise in paragraphs 6-21, Australian Accounting Standards apply to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity;
 - (c) financial statements that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - ~~(e) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~
- 6 AASB 8 *Operating Segments* applies to:
- (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other for-profit reporting entity;
 - (c) financial statements of a for-profit entity that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - ~~(e) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~
- 7 AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures* apply to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
 - (b) general purpose financial statements of each reporting entity;
 - (c) financial statements that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - ~~(e) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~
- 8 AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies to:
- (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other for-profit reporting entity;
 - (c) financial statements of a for-profit entity that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - ~~(e) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting~~

Standards, provided that the relevant document was created or amended on or after 1 July 2020.

9 AASB 133 *Earnings per Share* applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity or discloses earnings per share; and
- (b) for-profit private sector entities that ~~have public accountability and~~ are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act or disclose earnings per share.

10 AASB 134 *Interim Financial Reporting* applies to:

- (a) each disclosing entity required to prepare half-year financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) interim financial reports that are general purpose financial statements of each ~~other~~ reporting entity; ~~and~~
- (c) interim financial reports that are, or are held out to be, general purpose financial statements;
- (d) interim financial reports of for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (e) interim financial reports of other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

...

12 AASB 1038 *Life Insurance Contracts* applies to:

- (a) a life insurer; or
- (b) the parent in a group that includes a life insurer;

when the entity:

- (c) is a reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (d) is an other reporting entity and prepares general purpose financial statements;
- (e) prepares financial statements that are, or are held out to be, general purpose financial statements; ~~or~~
- (f) is a for-profit private sector entity that ~~has public accountability and~~ is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; or
- (g) is an other for-profit private sector entity that is required only by its constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

...

18 AASB 1053 *Application of Tiers of Australian Accounting Standards* applies to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) general purpose financial statements of each reporting entity;
- (c) financial statements that are, or are held out to be, general purpose financial statements;
- (d) financial statements of GGSs prepared in accordance with AASB 1049; ~~and~~
- (e) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (f) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

...

- 20 AASB 1056 *Superannuation Entities* applies to:
- (a) general purpose financial statements of each superannuation entity that is a reporting entity;
 - (b) financial statements of a superannuation entity that are held out to be general purpose financial statements; ~~and~~
 - (c) for-profit private sector superannuation entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - (d) ~~other for-profit private sector superannuation entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~

...

Application of Australian Interpretations

- 22 Unless specified otherwise in paragraphs 23–26, Interpretations apply to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity;
 - (c) financial statements that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, and
 - (e) ~~other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~
- 23 Interpretation 110 *Government Assistance – No Specific Relation to Operating Activities* applies to:
- (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other for-profit reporting entity;
 - (c) financial statements of a for-profit entity that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - (e) ~~other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.~~
- 24 Interpretation 1019 *The Superannuation Contributions Surcharge* applies to:
- (a) each superannuation plan that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial statements of each other superannuation plan that is a reporting entity;
 - (c) financial statements of a superannuation plan that are, or are held out to be, general purpose financial statements; ~~and~~
 - (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
 - (e) ~~other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting~~

Standards, provided that the relevant document was created or amended on or after 1 July 2020.

...

26 Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* applies to entities that are or include medical defence organisations as follows:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
- (b) general purpose financial statements of each other reporting entity;
- (c) financial statements that are, or are held out to be, general purpose financial statements; ~~and~~
- (d) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (e) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020.

...

Appendix Defined terms

...

reporting entity

An entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

This reporting entity definition is not relevant to:

- (a) for-profit private sector entities that ~~have public accountability and~~ are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (private sector or public sector) that elect to prepare general purpose financial statements and elect to apply the *Conceptual Framework for Financial Reporting* and the consequential amendments to other pronouncements set out in *Accounting Standards AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework* and *AASB 2019-Y Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 30 June 2020.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2019-Y Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Exposure Draft (ED). It sets out the reasons why the Board developed the ED, the approach taken to developing the ED, and the bases for key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.
- BC2 For more than a decade the Board has been undertaking work aimed at addressing the problems that arise from entities being allowed to self-assess whether to prepare special purpose financial statements (SPFS) or general purpose financial statements (GPFS) when they are required to comply with Australian Accounting Standards (AAS) (see paragraphs BC10-BC13 for details). As is evident from empirical research and feedback from stakeholders (see paragraphs BC18-BC40), there is concern that SPFS lack consistency, comparability transparency and enforceability. The Board’s research has identified that there are users of financial statements that are publicly lodged with the Australian Securities and Investments Commission (ASIC), and the Board has been informed by those users that comparability, transparency, comprehensibility and consistency are what is most important to them when reading financial statements. For example comparability of recognition and measurement (R&M) requirements in AAS was rated 88% in importance to primary users¹ and 100% in importance to other users. They also expressed concern that key information is omitted from SPFSs (see paragraphs BC36-BC40).
- BC3 Regulatory scrutiny of SPFS has also increased, for example in the Senate Economics References Committee Report on Tax Avoidance, and the recent requirement for all Significant Global Entities (SGEs) to lodge GPFS with the Australian Taxation Office (ATO) (see paragraph BC31(a)).
- BC4 Within the context of the AASB’s International Financial Reporting Standards (IFRS Standards) adoption policy, the recent issue of a revised *Conceptual Framework for Financial Reporting* (referred to throughout this Basis for Conclusions as ‘the RCF’) by the International Accounting Standards Board (IASB) provides a timely opportunity to once again consider how best to improve the quality of financial reporting in Australia by solving the so-called ‘SPFS problem’ via a broader project aimed at removing the ability of certain for-profit private sector entities to prepare SPFS when they are required to prepare financial statements that comply with AAS.² The Board is progressing with this project by considering each sector separately, in the first instance for-profit private sector entities required to comply with AAS (being the subject of this ED – as explained in paragraphs BC61-BC84).
- BC5 The Board noted the Australian Government Treasury change in thresholds for large proprietary companies, which are required to lodge their financial statements with ASIC. Treasury has doubled the thresholds used for determining what constitutes a large proprietary company. As set out in the Explanatory Memorandum accompanying the increase, the revised thresholds were set with the expectation of capturing entities with economic significance and noted the larger the entity, the more likely it is that there are GPFS users. These are key criteria in the AASB’s Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* for determining whether or not an entity is a reporting entity.
- BC6 As noted in paragraph BC4, the solution to the SPFS problem proposed in this ED, is to remove the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare SPFS when they are required to prepare financial statements that comply with AAS.³ This will improve the consistency, comparability, transparency and enforceability of publicly lodged financial statements, thus meeting the needs of users who are accessing these publicly lodged financial statements or specifically requesting financial statements that comply with AAS. The Board acknowledges that these proposals cannot be implemented in isolation, as merely removing the ability of certain for-profit private sector entities to prepare SPFS with no other mitigating action would result in increased reporting requirements for some

1 AASB Staff Paper *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements – For-profit User and Preparer Survey Results* (December 2018). ‘Primary users’ refers to users that meet the definition of primary users in AASB Practice Statement 2 *Making Materiality Judgements* (ie investors (and analysts), lenders and other creditors) and all other respondents are referred to as ‘other users’.

2 In this Basis for Conclusions, the reference to AAS in this phrase also includes accounting standards as referred to in legislation (this means legislation of a government in Australia).

3 The Australian concept of the reporting entity would be retained for entities outside the scope of this ED (and AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*). The Board will consider the financial reporting framework for these entities in the future.

entities if they were required to transition from SPFS to some form of Tier 2⁴ GPFS framework. Therefore, these proposals are being made in conjunction with ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (August 2019), which proposes to provide Tier 2 GPFS reporting requirements for those for-profit entities that would be prohibited from preparing SPFS under the AASB’s proposals that appropriately balance the needs of users with the costs of moving from SPFS to Tier 2 GPFS.

- BC7 The Board is also considering through this ED transitional relief in addition to that which is currently available via AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 1053 (see paragraphs BC112-BC122).
- BC8 The remainder of this Basis for Conclusions provides further background and explanation about the reasons for developing this ED, including:
- (a) previous Board decisions in relation to earlier stages of the process (to provide a historical perspective, see for example paragraphs BC10-BC13);
 - (b) the basis for the key decisions made, including:
 - (i) the types of entities affected by the proposals and the technical requirements that would be required (including, for context, a summary of the basis for the proposed revised Tier 2 GPFS framework (see paragraphs BC86-BC111), which is detailed in AASB ED 295);
 - (ii) transitional provisions (see paragraphs BC112-BC122); and
 - (iii) the effective date (see paragraphs BC126-BC129);
 - (c) how the Board applied *The AASB’s For-Profit Entity Standard-Setting Framework* when developing the proposals in this ED (see paragraphs BC130-BC132); and
 - (d) the amendments required to implement the proposals outlined in this ED (see paragraphs BC133-BC137, respectively).

Reasons for developing this ED

- BC9 This ED proposes:
- (a) amendments to AAS to remove the ability of certain for-profit private sector entities to prepare SPFS by removing the ‘reporting entity’ concept for those entities required by:
 - (i) legislation to prepare financial statements that comply with either AAS or accounting standards; or
 - (ii) their constituting document (or another document) to prepare financial statements that comply with AAS, provided the relevant document was created or amended on or after 1 July 2020; and
 - (b) to provide relief from restating and presenting comparative information in the year of transition for entities transitioning to full R&M requirements (see paragraphs BC112-BC122).

Board deliberations prior to the AASB’s Invitation to Comment ITC 39 Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems

- BC10 As noted in paragraph BC2, the Board had been aware of the problems with the application of the reporting entity concept and the consequential public lodgement of SPFS for some time. Indeed, the Board has previously publicly contemplated the removal of the ability of certain entities to self-assess and prepare SPFS when required to comply with AAS. For example:
- (a) AASB Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* (May 2007) noted the concept of SPFS might have been misunderstood in some cases. To remove the ambiguity concerning the reporting entity concept, ITC 12 sought

4 Currently, Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:
(a) Tier 1: Australian Accounting Standards; and
(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.
(See paragraph 7 of AASB 1053 *Application of Tiers of Australian Accounting Standards*.) However, the Board is considering what the most appropriate Tier 2 GPFS framework may be – see paragraph BC86.

comment on whether all financial statements available on a public register should be required to be GPFS; and

- (b) AASB Consultation Paper (CP) *Differential Financial Reporting – Reducing Disclosure Requirements* (February 2010) and ED 192 *Revised Differential Reporting Framework* (February 2010), issued in tandem, followed ITC 12 and reaffirmed the Board’s view that the reporting entity concept which allows the public lodgement of SPFS should be removed. The Board elaborated on the issues surrounding SPFS in the CP, including noting that:
- (i) entities are asserted to be ‘abusing’ the reporting entity concept by claiming to be non-reporting entities and preparing SPFS when they should be preparing GPFS. An impetus for this is the desire to avoid the cost and exposure that would come from applying full IFRS Standards as adopted in Australia;
 - (ii) many of the regulators requiring the preparation and lodgement of financial statements may not have given sufficient consideration to the nature of the information they require and the needs of any external users of that information; and
 - (iii) preparation of SPFS by entities that are required by law to prepare financial statements in accordance with accounting standards and be lodged on a public register contradicts the legislation’s objective of providing information to a wide range of users who are not in a position to command specific information to satisfy their needs.

BC11 However, the Board noted the mixed feedback from constituents in response to these due process documents in regard to removing the ability of certain entities to self-assess and prepare SPFS when required to comply with AAS, which suggested that (as noted in paragraphs BC10-BC17 of the Basis for Conclusions to AASB 1053):

- (a) on the one hand, the reporting entity concept involves a high degree of subjectivity, is not universally understood and hence does not provide the intended result, nor does it provide a robust criterion for differential reporting purposes; and
- (b) on the other hand, the reporting entity concept works well, and there appeared to be no evidence to the contrary, particularly from users.

BC12 Consequently, in 2010, the Board decided to issue AASB 1053 and introduce a second tier of GPFS reporting, being Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR), but delay the phase of the project addressing the reporting entity concept and the removal of SPFS until further research had been undertaken considering in more detail the impact of removing the ability of certain entities to self-assess and prepare SPFS when required to comply with AAS. The RDR requirements were designed to substantially reduce the disclosure burden when compared to the full disclosure requirements of AAS.

BC13 Prompted by the views noted in paragraphs BC10-BC11, the Board initiated research projects, the findings of which are discussed in paragraphs BC18-BC24.

The issues with SPFS

BC14 Australia is the only jurisdiction with a reporting entity concept that effectively permits entities to self-assess what type of financial reporting they do, when they are required by legislation or otherwise (such as by a constituting document) to prepare financial statements in accordance with AAS (issued by the AASB).⁵ Therefore, unlike other jurisdictions, in Australia two similar entities might prepare very different sets of financial statements, one preparing GPFS using a robust and consistent framework, and the other preparing SPFS with self-selected requirements. This reduces comparability for entities of similar economic circumstances and undermines the fundamental principles of trust and transparency.

BC15 An analysis of the reporting practices of specified for-profit entities lodging financial statements with ASIC estimated that 71% of those entities prepared and publicly lodged SPFS in 2018.⁶ This same research estimated that 24% of these entities lodging SPFS either did not comply with the R&M requirements in AAS or did not make clear whether they did (refer to paragraphs BC20-BC22). Therefore, only 76% of the SPFS voluntarily complied with ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85) recommended guidance to comply with all the R&M requirements in AAS (refer BC27-BC28). This suggests

⁵ See AASB Research Report No. 7 *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies* (May 2018) for a comparison of international financial reporting frameworks.

⁶ AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019). Research Report 12 examines the financial reporting practices of for-profit entities, including large proprietary companies, small foreign-controlled proprietary companies, for-profit unlisted public companies and other small proprietary companies, lodging financial statements with ASIC. The findings of Research Report 12 considered in this ED are limited to those that relate to entities within the scope of the proposals in this ED, that is large proprietary companies, small foreign-controlled proprietary companies and for-profit unlisted public companies limited by guarantee. These entities are referred to herein as the ‘specified for-profit entities’.

a strong need to improve the consistency, comparability, transparency and enforceability of financial reporting, which will also increase the usefulness and credibility of financial reporting in Australia.

- BC16 It is incumbent on the AASB to resolve the SPFS problem as, legislatively, the AASB must ensure there are appropriate accounting standards for each type of entity that must comply with accounting standards (*Australian Securities and Investments Commission Act 2001 s229(2)(c)*) and facilitate comparability (s224). The ability to make the self-assessment that gives rise to the SPFS problem sits within AAS. Currently the only AAS that explicitly apply to SPFS focus on presentation and disclosure (and not R&M). Accordingly, they fall short in specifying adequate requirements. It is the directors' choice of accounting policies that provides the financial reporting framework. As a consequence, other regulators have attempted to fill the gap by providing additional guidance in relation to R&M. Despite these attempts, discussions with users, including lenders and insolvency practitioners, indicate their needs for information about liquidity, solvency, cash flows, commitments and contingencies and related party disclosures are currently not being met in most SPFS. This indicates there is the need for minimum R&M requirements to be specified in AAS.
- BC17 Therefore, as noted in paragraph BC5, it is time for the AASB to play its role in improving the consistency, comparability, transparency and enforceability of financial statements to meet user needs, whilst mitigating, where appropriate, the increased reporting burden for entities that would no longer be able to prepare SPFS and would instead be required to prepare GPFS in accordance with AAS.

Results of research into the reporting practices of specified for-profit entities lodging financial statements with ASIC

- BC18 The Board initiated academic research that resulted in the publication of AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* (June 2014). Research Report No. 1 analysed the application of the reporting entity concept and the adoption of special purpose financial reporting, particularly by entities lodging financial statements with ASIC and with state-based regulators in Australia's three most populous states, namely, Consumer Affairs Victoria, NSW Fair Trading and Queensland Office of Fair Trading. Research Report No. 1 showed that, based on lodgements as at 30 July 2011, approximately 66% of specified for-profit entities⁷ lodged SPFS with ASIC. The findings of Research Report No. 1 indicated to the Board that:
- (a) in light of the high incidence of SPFS being lodged with ASIC, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1;
 - (b) the reporting entity concept appears too subjective for regulators to enforce effectively and accordingly does not create a level playing field; and
 - (c) 63% of SPFS lodged with ASIC stated compliance with the R&M requirements of applicable AAS, suggesting that R&M was not always complied with despite regulatory guidance suggesting this should be the case (see paragraphs BC27-BC28).
- BC19 The Board also initiated subsequent research to understand how the reporting practices of for-profit entities lodging SPFS with ASIC may have changed since the introduction of the RDR reporting framework in 2010. An analysis of financial reports of the specified for-profit entities lodging financial statements with ASIC in 2018 confirmed that 71% of these entities were still lodging SPFS with ASIC, 13% lodged Tier 2 GPFS and 16% lodged Tier 1 GPFS. The Board also noted that those entities preparing Tier 2 GPFS (RDR) appear to have moved from Tier 1 GPFS to RDR and not from SPFS to RDR.
- BC20 In respect of compliance with the R&M requirements in AAS, the Board noted the more detailed findings of Research Report No. 12, which estimates that 76% of specified for-profit entities preparing and lodging SPFS with ASIC complied with the R&M requirements in AAS. In particular:
- (a) 66% explicitly stated that they followed the R&M requirements in AAS (compared with the 63% found in Research Report No.1 – see paragraph BC18(c)); and
 - (b) 10% were assessed to have complied with the R&M requirements in AAS based on a qualitative review of the accounting policies, despite the absence of an explicit statement to that effect.
- BC21 For the remaining 24%:
- (a) 10% did not comply with the R&M requirements in AAS (of which only 0.5% clearly stated so); and
 - (b) the extent of compliance (or otherwise) with the R&M requirements in AAS of the remaining 14% was unclear.
- BC22 In addition to it being difficult for the researchers to understand the extent of alignment between an entity's accounting policies and the R&M requirements in AAS, the Board noted the same difficulties faced by

⁷ Specified for-profit entities are large proprietary companies, small foreign-controlled companies and unlisted public companies.

financial statement users. This leads to fundamental issues with the transparency of information available to users of publicly lodged SPFS, consistency and the comparability of SPFS with other SPFS and GPFS. As noted in paragraph BC15, only 76% of entities preparing SPFS are voluntarily complying with RG 85 recommendations, suggesting that mandatory requirements are needed to improve the quality of financial reporting.

- BC23 The Board noted that the broader project to remove the ability of certain for-profit private sector entities to prepare SPFS where they are required to prepare financial statements that comply with AAS, which is the subject of this ED, will take some time, and in light of this, decided to propose, as an interim measure, amendments to AAS to require entities preparing SPFS to make an explicit statement as to whether or not the accounting policies applied in the SPFS comply with all the R&M requirements in AAS. The Board acknowledged that disclosure of this information is not sufficient to address the problems with publicly lodged SPFS, however this interim measure is aimed at providing some measure of transparency to users until the SPFS problem is resolved, in the short to medium term for for-profit private sector entities and in the longer term for not-for-profit entities.⁸
- BC24 In addition to the research described above, the Board also conducted targeted outreach prior and subsequent to issuing ITC 39, where over 200 formal meetings were held with key stakeholders, including State, Territory and Commonwealth regulators, audit offices, large and small accounting firms, the Australian Securities Exchange (ASX), ASIC, the Australian Charities and Not-for-profits Commission (ACNC), credit rating agencies, professional bodies and users of financial statements (including analysts, investors and creditors) to help identify how implementing the RCF and removing the ability of certain for-profit private sector entities to prepare SPFS when they are required to prepare financial statements that comply with AAS, would impact Australian entities. The Board considered the feedback received, when preparing ITC 39 and this ED.

Regulatory views and developments on SPFS

- BC25 The Board noted feedback from some stakeholders suggesting that it was the role of other regulators (rather than the AASB) to address any potential issues with SPFS. In particular, some stakeholders argued:
- (a) other regulators should specify or determine whether an entity is required to lodge GPFS;⁹ and
 - (b) if the reporting entity concept is not being applied correctly, this is a matter of enforcement for the appropriate regulator rather than a matter of standard-setting.
- BC26 Thus, the Board has paid particular regard to the views of other regulators, and noted the increasing regulatory interest in and concern about the public lodgement of SPFS to assess what role the Board should play in addressing the issues.
- BC27 ASIC issued RG 85 in July 2005, which states that “ASIC believes that non-reporting entities, which are required to prepare financial reports in accordance with Chapter 2M of the *Corporations Act 2001* (Act), should comply with the recognition and measurement requirements of accounting standards”¹⁰ “hence, the recognition and measurement requirements of accounting standards must also be applied in order to determine the financial position and profit or loss of any entity preparing financial reports in accordance with the Act”.¹¹
- BC28 RG 85 further states that ‘Directors of non-reporting entities must also consider carefully the need to make disclosures which are not directly prescribed by accounting standards, but which may be necessary in order for the financial statements to give a true and fair view’,¹² and that those standards that must be applied by entities reporting under the *Corporations Act 2001* are AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*. However, as noted in paragraph BC21, research into the extent of compliance with the R&M requirements in AAS by specified for-profit entities lodging SPFS with ASIC shows that at least 10% and potentially up to 24% of them do not appear to have followed the guidance outlined in RG 85. ASIC has also indicated it finds the judgements required regarding the application of the reporting entity concept in SAC 1 to be unenforceable.
- BC29 The appropriateness of SPFS have also been called into question in a number of other regulatory matters. For example, as part of the Senate Economics References Committee Report on Tax Avoidance, the Board’s Chair was asked to explain to the Committee the reporting entity concept and its role in facilitating the preparation of SPFS. The Board noted the subsequent Report, *Corporate tax avoidance Part III, Much heat, little light so far* (May 2018), outlined strong concern that multinationals operating within Australia are avoiding public

8 ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (July 2019).

9 This is consistent with the view that the AASB’s role and expertise is to determine the appropriate accounting framework and accounting standards that should apply where legislation, regulation or other authority requires the preparation of financial statements that comply with AAS.

10 Paragraph 2 of RG 85.

11 Paragraph 2.5 of RG 85.

12 Paragraph 2.9 of RG 85.

scrutiny through the preparation of SPFS, which are not required to disclose corporate tax and related party transactions, and also noted the Board's role in facilitating the public lodgement of SPFS through its reporting entity concept. The Report recommended the Government require all companies, trusts and other financial entities with income above a certain amount to lodge GPFS with ASIC. These comments, albeit with a focus on tax, reinforce the view that a problem exists in relation to the way in which the reporting entity concept is applied, as well as the information provided through the public lodgement of SPFS.

- BC30 The Board also reflected on the recommendations in the *Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (February 2019), particularly the recommendation to remove special rules and exceptions that can create regulatory complexities. The Final Report indicated that exceptions departing from underlying principles have consequences often resulting in exploitation and that exceptions act as barriers to the simplification of regulation. The Board further considered the theme of enforceability within the Final Report, noting in particular that the subjectivity inherent in the current Australian reporting entity concept may not provide regulators with an objective basis on which to enforce financial reporting obligations.
- BC31 In addition, other regulatory developments indicated an increased need for entities to prepare GPFS instead of SPFS where they are required to prepare financial statements that comply with AAS, for example:
- (a) the requirement for SGEs¹³ to lodge GPFS with the ATO, which would subsequently be provided to ASIC¹⁴ (December 2015);
 - (b) questions to the Board's Chair and the Financial Reporting Council (FRC) Chair on the AASB's and FRC's approach to resolving the shortcomings of SPFS by the Parliamentary Joint Committee on Corporations and Financial Services as part of its inquiry into the oversight of ASIC and the Takeovers Panel (February 2018); and
 - (c) the Senate Economics References Committee report *Financial and tax practices of for-profit aged care providers* (November 2018), which supported the Board's intent to remove the ability of certain entities to prepare SPFS where they are required to prepare financial statements that comply with AAS.
- BC32 In light of the regulatory developments and public enquiries noted above, the Board also observed the increasing public interest and media scrutiny of the transparency and accountability of publicly available financial statements, both generally and specifically in relation to the reporting entity concept and its facilitation of publicly lodged SPFS.
- BC33 In proposing to remove the ability of certain for-profit private sector entities to prepare SPFS when they are required to prepare financial statements that comply with AAS, the Board has received support from other regulators, particularly ASIC and the ATO, which conveyed the following views to the Board:
- (a) ASIC fully supports the consultation to remove SPFS for entities regulated by ASIC and remove the subjective 'reporting entity' test under SAC 1, facilitating a comparable, consistent and transparent framework for the preparation of financial statements in Australia; and
 - (b) the ATO is supportive of the AASB's proposed approach to consulting on a series of principles or concepts for enhancing the transparency of entities currently preparing SPFS as part of adopting the RCF issued by the IASB and for inclusion in AAS by 2021.
- BC34 The Board provided input to Treasury in considering legislative requirements that specify which types of for-profit entities should be required to publicly lodge financial statements with ASIC. In April 2019, Treasury announced changes to the *Corporations Regulations 2001*¹⁵ to increase (double) the thresholds used for determining whether an entity is a large proprietary company, with companies falling below the thresholds not being required to publicly lodge financial reports with ASIC. As part of the changes, the Board supported Treasury in providing objective criteria based on economic significance for determining the thresholds for when an entity should publicly lodge financial statements and noted the commentary in Treasury's Explanatory Statement, which is consistent with the Board's proposal to remove the ability of certain entities to prepare SPFS when they are required to prepare financial statements that comply with AAS, in particular:
- (a) the requirement for large proprietary companies to lodge financial reports was first introduced to focus regulation of reporting on the financial affairs of proprietary companies that have a significant economic influence; and
 - (b) the financial reports of companies that have economic significance should be publicly available because of their size and potential to affect the community and the economy. The larger the size,

13 An entity is an SGE for a period if it is one of the following (as defined in Subdivision 960-U of the *Income Tax Assessment Act 1997*):

(a) a 'global parent entity' whose 'annual global income' is A\$1 billion or more; or

(b) a member of a group of entities consolidated (for accounting purposes) where the global parent entity has an annual global income of A\$1 billion or more.

14 Introduced by *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015*.

15 Introduced by *Corporations Amendment (Proprietary Company Thresholds) Regulations 2019*.

the more likely it is that there will exist users dependent on GPFS as a basis for making economic decisions.

- BC35 This clearly indicates the new thresholds which apply from 1 July 2019 were set to reflect the ‘economic significance’ of the entities captured, which is another key criterion in SAC 1 for deciding whether or not an entity is a reporting entity.

Evidence from stakeholders, including financial report users

- BC36 In addition to the above, the Board noted the general agreement amongst stakeholders that there is an SPFS problem in its outreach both prior and subsequent to the issue of ITC 39. In considering submissions received on ITC 39 the Board noted that of the 33 formal respondents (relevant to this phase of the project), 85% agreed there is a problem with SPFS that needs to be solved, with similar feedback received anecdotally through other outreach activities.
- BC37 As part of the due process, a significant amount of feedback was provided by users of financial statements. Of particular importance is the AASB Staff Paper *Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements – For-profit User and Preparer Survey Results* (December 2018), which indicated that, from the perspective of the 37 users (analysts, investors and creditors) that responded:
- (a) there is a problem with SPFS that needs to be addressed – 78% of primary users expressed concern that SPFS do not consistently apply R&M requirements in AAS;
 - (b) 93% of primary users and over 95% of other users said that comparability, transparency, comprehensibility and consistency are all paramount; and
 - (c) there is dissatisfaction with SPFS that needs to be addressed, particularly around the lack of related party disclosures, lack of comparability and that the extent to which entities comply with the R&M requirements in AAS is unclear to users.
- BC38 The Board also conducted a range of meetings with users to understand their needs and received six formal submissions on ITC 39 from users of financial statements (out of the 33 responses relevant to this phase of the project). In those formal submissions, the Board noted that all of those respondents:
- (a) noted, or referred to, the lack of comparability, consistency and transparency currently caused by SPFS that needs to be resolved; and
 - (b) supported public lodgement of financial statements that comply with all of the R&M requirements in AAS. Consistency, transparency and comparability were noted as important to users in their responses, with one user also noting the importance of consistent financial reporting to facilitate computer-based analysis and use of financial information.
- BC39 In addition to the information in paragraph BC37, the Board also noted other evidence that clearly indicates the existence of users who would benefit from having access to GPFS rather than SPFS. For example:
- (a) over 98,000 copies of financial statements are purchased annually from ASIC. Of those financial statements purchased, 80% were of proprietary companies, 16% were of unlisted public companies and 4% were of small foreign-controlled companies;¹⁶
 - (b) anecdotally, data aggregators¹⁷ rely on publicly available information to assist their clients with determining the viability, capacity and credit risk associated with a company; and
 - (c) as noted in paragraph BC34, Treasury indicated in the Explanatory Statement accompanying the revision of the large proprietary company thresholds its expectation that there are users dependent on the GPFS of large proprietary companies, given their economic significance. Further, that Explanatory Statement noted that average access rates through ASIC of the revised (smaller) population of large proprietary companies was significantly higher (on average 3.6 times per company) than the proprietary companies that would no longer have an obligation to lodge financial statements with ASIC (on average 1.8 times per company).
- BC40 Despite the relatively lower access rates for small foreign-controlled companies and unlisted public companies noted in paragraph BC39(a), the Board noted its expectation that users of those financial statements would also benefit from having access to GPFS rather than SPFS given that:

16 Of these 98,000 copies of financial statements, approximately 29,000 are purchased by public users through ASIC connect and not by data aggregators.

17 Data aggregators purchase and analyse data for the purpose of providing informed credit and risk management advice, industry profiling and other analytic products and services.

- (a) small foreign-controlled companies have been specifically required to lodge financial statements with ASIC¹⁸, and are already provided with significant relief from financial reporting obligations if the company is included in the consolidated financial statements of a registered foreign company that is lodged with ASIC. Additionally, *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204* provides further relief to small foreign-controlled entities – even if they are not consolidated by a registered foreign company lodging financial statements with ASIC – by requiring them to lodge financial statements with ASIC only if directed to do so by shareholders or ASIC, or if they are part of a large group in Australia. The requirement for small foreign-controlled companies to lodge financial statements where they are part of a large group is designed to prevent foreign-controlled companies disaggregating their Australian activities into smaller companies to avoid financial reporting obligations.¹⁹ In light of this Australian public interest context, demonstrated also through the requirements for SGEs to lodge GPFS with the ATO and the strong public interest in seeing no avoidance of tax, there appears to be no justification for small foreign-controlled companies to be relieved from the requirement to prepare GPFS; and
- (b) unlisted public companies by definition would have at least 50 non-employee shareholders (ie external users) and have the ability to offer shares to the public. As such, the Board noted it would be difficult to justify there being no external users of such entities’ financial statements – and therefore GPFS are warranted. In addition, it is possible that some of the 3,102 unlisted public companies²⁰ currently lodging financial statements with ASIC may be not-for-profit entities, and as such would not be affected by this ED.

The RCF

- BC41 The IASB issued the RCF in March 2018. The RCF describes the objective and concepts for general purpose financial reporting under IFRS Standards. Its purpose is to assist standard-setters to develop Standards that are based on consistent concepts, and to help preparers develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy.²¹ It also assists anyone looking to understand and interpret the Standards. However, the RCF’s concept of ‘reporting entity’ is different from the reporting entity concept in SAC 1 and some AAS.²²
- BC42 Making the IASB’s RCF applicable in Australia, modified where necessary for public sector and not-for-profit (NFP) specific issues, would be consistent with the FRC’s strategic direction to the Board and the Board’s strategic objectives. In accordance with those strategies, the Board should:
- (a) maintain compliance with IFRS Standards for publicly accountable entities; and
 - (b) use IFRS Standards as a base for determining the reporting requirements for all other entities, modified as appropriate, in accordance with *The AASB’s For-Profit Entity Standard-Setting Framework* and *The AASB’s Not-for-Profit Entity Standard-Setting Framework*.
- BC43 However, if the AASB’s current reporting entity concept is maintained at the same time the RCF is applied, the inconsistency of the Australian reporting entity concept with the RCF could result in confusion, misinterpretation and the incorrect application of AAS and non-compliance with IFRS Standards. The likelihood of inconsistencies will also increase as and when IFRS Standards are amended or revised and more references to the term ‘reporting entity’ as defined in the RCF are included in IFRS Standards.
- BC44 Implementation of the RCF in Australia is challenging due to the reporting entity concept clash, that is, the reporting entity concept in the RCF determines the boundary of what needs to be reported when an entity is required to report, eg consolidation, and it does not determine who should prepare GPFS, as it is assumed that legislation requiring the preparation of financial statements in accordance with accounting standards is requiring GPFS. In contrast, the current Australian reporting entity concept allows entities to self-assess whether they should prepare:

18 The Explanatory Memorandum to the *Company Law Review Bill 1997* noted that “financial reporting by small proprietary companies which are foreign-controlled should, as far as possible, equate with the reporting requirements of small proprietary companies which are controlled by Australian companies. Accordingly, a small proprietary company will be required to prepare a financial report if the controlling registered foreign company does not prepare and lodge financial statements with the ASC which consolidate the affairs of the small proprietary company for the period in which it was controlled. ... An Australian company which controls a small proprietary company is required to consolidate the small proprietary company in its consolidated financial report if it comes within the scope of *AASB 1024: Consolidated Accounts*. While it would not be appropriate for the Corporations Law to generally require a registered foreign company to prepare consolidated financial statements, that company may consolidate the small proprietary company in financial statements prepared under the law of its jurisdiction of incorporation. If consolidated accounts of this kind are lodged with the ASC in accordance with the requirements in current section 349, the remainder of Chapter 2M will not apply to the small proprietary company.”

19 See the Explanatory Statement to *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*.

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21 The RCF, paragraph SP1.1.

22 The term ‘reporting entity’ as defined by the RCF is also inconsistent with the definition of reporting entity in *AASB 1057 Application of Australian Accounting Standards*.

- (a) GPFS, which requires compliance with all AAS, including recognition, measurement, presentation and disclosure requirements; or
- (b) SPFS, which only requires compliance with a small number of AAS that are more focussed on the presentation of and disclosure in financial statements and don't specify R&M requirements.

The ability of entities to self-assess their reporting requirements under the Australian reporting entity concept has led to the more fundamental 'SPFS problem'.

- BC45 Further, the SAC 1 reporting entity concept has led to confusion and diversity in practice regarding whether consolidation and equity accounting should be applied in SPFS publicly lodged with ASIC. RG 85 notes that some "companies have failed to prepare consolidated financial statements on the grounds that the parent entity was not a reporting entity"²³ and that the "sole determining factor as to whether consolidated financial statements are required is whether the **group** is a reporting entity" (emphasis added).²⁴ The RCF and AASB 10 *Consolidated Financial Statements*, however, require consolidation if an entity is a parent, with limited exceptions.²⁵
- BC46 This reporting entity clash was addressed in ITC 39, and ITC 39 sought comment on the clash between the reporting entity concepts in the RCF and SAC 1 and the related SPFS problem. The proposals in this ED have been informed by the Board's research and consultation undertaken prior to and since ITC 39 was issued. The results of that research and consultation, and how it influenced the Board's decisions, are outlined throughout this Basis for Conclusions.
- BC47 To address the reporting entity clash, ITC 39 considered a number of options to apply the RCF (refer to paragraphs BC51-BC56), including considering whether it would be feasible to operate with two conceptual frameworks²⁶ – the RCF for publicly accountable entities and entities that wish to claim IFRS compliance, and the current *Framework for the Preparation and Presentation of Financial Statements* (existing Conceptual Framework) for other entities (which would include maintaining SAC 1, the Australian reporting entity concept and SPFS for all entities not applying the RCF). However, the Board decided that this option was not feasible, as new and revised AAS will be based on the RCF, which includes revised definitions and recognition criteria for assets and liabilities, a new chapter on the reporting entity and a new chapter on measurement. Therefore, if entities continue to apply the existing Conceptual Framework when developing accounting policies or interpreting AAS, they are likely to develop inappropriate accounting policies or incorrectly interpret AAS. This could result in inaccurate and inconsistent financial reporting which would reduce the transparency and comparability for users of financial statements.
- BC48 Updating the existing Conceptual Framework for the changes made via the RCF other than the reporting entity concept is also not feasible given the pervasive use of 'reporting entity' throughout the RCF. The Board also considered an option to simply rename the reporting entity concept in SAC 1 to resolve the reporting entity clash.²⁷ The Board however, decided that this approach would not meet any of the justifiable circumstances set out in *The AASB's For-Profit Entity Standard-Setting Framework* for the AASB to have different requirements to IFRS Standards. Further, this would be inconsistent with the AASB's legislative requirements to ensure there are appropriate accounting standards for each type of entity that must comply with accounting standards and to facilitate consistency, comparability, transparency and enforceability (refer paragraph BC16). This is because such an approach would not resolve the fundamental issues with the public lodgement of SPFS, which is addressed in the next section, or the current inconsistency in practice and lack of transparency.

Resolving the issues

- BC49 In light of the evidence provided to the Board in paragraphs BC9-BC48, the Board decided that to play its part in resolving the clash between the reporting entity concepts, as well as to improve the consistency, comparability, transparency and enforceability of the for-profit private sector financial reporting framework, it is necessary to remove the Australian reporting entity concept (by making the consequential amendments to AAS set out in this ED). This would remove the ability of an entity to self-assess that it is not a 'reporting entity' as currently defined in SAC 1, and so prevent it from preparing SPFS if it is required to prepare financial statements that comply with AAS.
- BC50 The Board concluded the removal of the self-assessment of the reporting entity concept and disallowance of the preparation of SPFS for for-profit private sector entities would simplify the reporting framework by providing a single set of minimum requirements, facilitating the objective of a consistent, comparable, transparent and enforceable Australian financial reporting framework. In arriving at this solution the Board considered a range of alternatives through ITC 39, as noted in the next section.

²³ RG 85, paragraph 5.1.

²⁴ RG 85, paragraph 5.5.

²⁵ Paragraphs 4, Aus4.1, Aus4.2 and 4B of AASB 10 outline the exemptions and exceptions whereby a parent entity need not present consolidated financial statements.

²⁶ Refer paragraph BC56(a).

²⁷ Refer paragraph BC56(d).

ITC 39

Preferred option in ITC 39

- BC51 As noted in paragraph BC46, ITC 39 was a precursor due process document to this ED. In ITC 39 the Board considered five different options for implementing the RCF in Australia and the benefits and barriers of each option. After considering the comments from respondents on ITC 39, the Board decided to adopt Option 1 in ITC 39, a two-phased approach to applying the RCF:
- (a) in the short term maintaining compliance with IFRS Standards for publicly accountable for-profit private sector entities required by legislation to comply with AAS and other for-profit entities voluntarily claiming compliance with IFRS Standards (Phase 1); and
 - (b) in the medium term maintaining IFRS Standards as a base by removing the Australian reporting entity concept from AAS and providing a revised Tier 2 GPFS framework (Phase 2).²⁸ This would remove the ability of an entity to prepare SPFS where they are required to prepare financial statements that comply with AAS.
- BC52 The Board decided in favour of this two-phased approach because it:
- (a) allowed for-profit private sector entities with public accountability and entities that voluntarily report compliance with IFRS Standards to continue to do so;
 - (b) allowed all other entities to continue preparing SPFS in the short term while the Board undertook consultation and outreach activities and determines the appropriate Tier 2 GPFS framework to replace SPFS;
 - (c) maintained IFRS Standards as a base for all entities in the medium term;
 - (d) solved the reporting entity problem in the medium term;
 - (e) solved the SPFS problem in the medium term;
 - (f) allowed time for the Board to consult and determine any NFP modifications that may be necessary to the RCF in accordance with *The AASB's Not-for-Profit Entity Standard-Setting Framework*; and
 - (g) facilitates comparability and ensures there are appropriate accounting standards for each type of entity required to prepare financial statements that comply with AAS.
- BC53 Phase 1 implements the RCF for publicly accountable for-profit private sector entities and other entities voluntarily reporting compliance with IFRS Standards so that they can continue to maintain IFRS compliance when the RCF takes effect internationally on 1 January 2020. Entities in Australia with public accountability must apply the full IFRS Standards as AAS incorporate IFRS Standards and therefore, the Board reconfirmed its view that for-profit private sector entities in Australia with public accountability should be required to prepare Tier 1 GPFS. The Board completed Phase 1 in May 2019 (see AASB 2019-1).
- BC54 ITC 39 proposed that Phase 2 would then implement the RCF for all other entities. However after considering initial feedback on ITC 39, the results of discussions with ACNC and other State and Territory regulators regarding the recommendations in the ACNC's Legislative Review 2018: *Strengthening for Purpose: Australian Charities And Not-for-profits Commission* (ACNC legislative review), research initiated by the Board and *The AASB's Not-for-Profit Entity Standard-Setting Framework*, the Board decided that the proposals in ITC 39 should only apply to for-profit private sector entities, and that it would be more appropriate to progress reform of the NFP public and private sector financial reporting framework via separate targeted consultations undertaken as part of the broader financial reporting framework project (refer to paragraphs BC65-BC67 for further discussion). The Board also decided to consider the public sector financial reporting framework separately (refer to paragraph BC72).
- BC55 Option 1 in ITC 39 contemplated that during Phase 2, the Tier 2 GPFS framework in AASB 1053 would be revised to be one of the following alternatives:
- (a) RDR – The existing Tier 2 GPFS framework as currently exists in AASB 1053, consisting of full R&M, including consolidation and equity accounting (where applicable) with reduced disclosures from each applicable AAS; or
 - (b) Specified Disclosure Requirements (SDR) – A new Tier 2 GPFS framework that would consist of full R&M including consolidation and equity accounting (where applicable), however with specified disclosures from only some AAS.

²⁸ To complement and support the proposals in this ED, as noted in paragraph BC5, the Board has also proposed to simplify the current GPFS Tier 2 disclosure framework in a separate but related ED, ED 295, a summary of which is provided in paragraph BC86-BC111, to provide context to the proposals in this ED.

The Board subsequently decided that neither RDR nor SDR were appropriate Tier 2 disclosure frameworks. The Board instead decided to develop another alternative, the *Simplified Disclosures Framework*, as proposed in ED 295 and explained further in paragraph BC90.

Other options considered in ITC 39

BC56 ITC 39 considered four other options for implementing the RCF in Australia. However, after considering constituent comments, the Board decided not to pursue them, as explained below:

- (a) Option 2 – Operate with two conceptual frameworks. This option would implement the RCF for publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS Standards. It would also retain the existing Conceptual Framework for all other entities. The Board decided not to pursue this option as it requires two conceptual frameworks indefinitely, which would likely lead to the development of inconsistent accounting policies between entities preparing financial statements under the existing Conceptual Framework and entities preparing financial statements under the RCF. Also this option does not solve either the clash of the reporting entity concepts or the SPFS problem.
- (b) Option 3 – Implement the RCF for all entities when it first becomes applicable to maintain compliance with IFRS Standards and IFRS Standards as a base for Australian Accounting Standards. This option would result in a single conceptual framework for all entities in the short term, remove the Australian reporting entity concept and the ability of an entity to prepare SPFS as a non-reporting entity when they are required to comply with AAS from 1 January 2020. Option 3 would see an increase in regulatory burden, particularly for NFP entities, as there would be a considerable step up for many entities transitioning to Tier 2 GPFS framework given the number of entities preparing SPFS and the short timeframe for transition to GPFS. The Board was concerned that this option would not provide entities with enough time for transition.
- (c) Option 4 – Retain the existing Conceptual Framework, the Australian reporting entity concept and the ability of an entity to prepare SPFS as a non-reporting entity where they are required to comply with AAS. Under this option compliance with AAS might not result in compliance with IFRS Standards after 1 January 2020.
- (d) Option 5 – Implement the RCF from 1 January 2020 when it first becomes applicable to maintain compliance with IFRS Standards and keep IFRS Standards as a base for AAS. Under Option 5, the Australian reporting entity concept would be retained but the name amended and minimum requirements for SPFS would be prescribed by the Board. The Board decided not to proceed with Option 5 as it did not consider this option to be significantly different from Option 1 (except for the phased approach) or Option 3, as the AASB would still need to prescribe minimum reporting requirements for SPFS preparers to resolve the SPFS problem.

AASB's deliberations on proceeding with Phase 2

BC57 The Board received 33 formal comment letters (relevant to this phase of the project) in response to ITC 39, from professional service firms, regulators, professional bodies, academics, preparers, users of financial statements and other respondents on specific and general matters for comment regarding Phase 2. The Board considered the comments received from each respondent and engaged directly with respondents to discuss any comments which required clarification. The Board also received feedback on the phase 2 proposals (targeted only to for-profit private sector entities) when they were presented at various forums, workshops and discussion groups to obtain feedback. This included roundtable sessions held in September 2018, where 106 stakeholders including regulators, professional bodies, users, preparers, auditors and academics attended. Furthermore, feedback was sought via targeted user and preparer surveys in quarter 3 of 2018, which received a total of 37 user and 49 preparer responses. The surveys were focussed on the specific matters for comment in ITC 39, and were used to get a better understanding of which of the Tier 2 GPFS frameworks proposed in ITC 39 users preferred (and why), as well as what transitional relief would be helpful to preparers. The feedback received from the formal comment letters, roundtables and surveys was consistent, indicating that

- (a) there is a SPFS problem that needs to be solved;
- (b) the Tier 2 GPFS framework should require compliance with all the R&M requirements in AAS including consolidation and equity accounting (where applicable);
- (c) comparability, transparency, comprehensibility and consistency are what users need most in financial statements;
- (d) a revised Tier 2 GPFS disclosure framework was preferred as SDR seemed to be missing some key disclosures, while RDR had too many. The Board noted the low number of entities moving from SPFS indicated that the costs of RDR were seen to outweigh the benefits for these entities. However,

in comparison to Tier 1 GPFS there was some benefit as 13% had voluntarily moved to RDR. Respondents felt that something in between the RDR and SDR framework would better satisfy user needs and suggested a more balanced approach to disclosures was needed;

- (e) there is widespread uncertainty on whether AASB 1 provides enough transitional relief to facilitate the transition from SPFS to Tier 2 GPFS (in whatever form that may take);
- (f) only one Tier 2 GPFS framework is necessary for for-profit private sector entities, given the entities required to publicly lodge financial statements is such a small proportion of actively trading entities, however some respondents were concerned that the proposals were not also considering who should be publicly lodging financial statements, noting in particular that the thresholds used from determining what constitutes a large proprietary company have not been reviewed for a number of years;
- (g) there were no clear views on what additional transitional relief, is needed;
- (h) respondents were concerned about the effect of the proposals on entities with a non-legislative requirement to prepare financial statements that comply with AAS (ie entities with trust deeds and other constituting documents inadvertently requiring compliance with AAS). Respondents were also concerned about the complexities and the potential costs involved in changing such documents;
- (i) a small number of respondents wanted the AASB to further consider the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs Standard) as an optional Tier 2 GPFS framework alternative or as the Tier 2 GPFS framework;
- (j) a small number of respondents asked for a financial reporting framework for those entities not required by legislation to prepare or lodge financial statements; and
- (k) some respondents thought more evidence of user needs was required.

BC58 Subsequent to receiving comments on ITC 39, all formal comment letters were made available to the public via the AASB website.²⁹ Summaries of feedback obtained from various outreach events, results from user and preparer surveys, and agenda papers for AASB Board meetings were also made available via the AASB website.

BC59 The Board decided to proceed with Phase 2 and resolve the issues with SPFS after considering:

- (a) the responses from financial statement users, preparers and other stakeholders during the public consultation period, including over 200 targeted discussions;
- (b) the findings in AASB Research Reports and commissioned academic research
- (c) the level of voluntary compliance with ASIC RG 85;
- (d) the low number of entities moving from SPFS to RDR;
- (e) the results of user and preparer surveys;
- (f) the decision by Treasury to revise the large proprietary thresholds (and therefore answering the 'who' should report question) (see paragraph BC34); and
- (g) the views of other regulators noted above, in particular the views expressed by ASIC in RG85 that, to provide a true and fair view of a company's financial position and performance, all of the R&M requirements in AAS should be complied with (see paragraphs BC27-BC28).

The accumulated body of evidence indicates there are users of publicly lodged SPFS and there is widespread acknowledgement, particularly from users, that the current financial reporting framework does not provide consistent, comparable, comprehensible, transparent and enforceable financial statements.

BC60 The next section details the matters considered by the Board when determining which entities should be subject to the proposals outlined in this ED, and which entities required further consideration and due process.

Scope

BC61 For-profit private sector entities lodging financial statements under the *Corporations Act 2001* that are affected by the Phase 2 proposals in this ED are principally:

- (a) large proprietary companies;
- (b) unlisted public companies (other than small companies limited by guarantee);
- (c) small proprietary companies controlled by a foreign company;

²⁹ See <https://www.aasb.gov.au/DirectLink.aspx?id=2155>

- (d) financial services licensees; and
- (e) small proprietary companies with crowd-sourced funding.

These have all been identified by the Board as being likely to have users dependent on their GPFS (see paragraph BC39 and category 4 in the Summary of scope table in paragraph BC84 below).

- BC62 In addition to *Corporations Act 2001* entities covered by paragraph BC61, some other types of entities are also affected by the proposals in this ED. For example, for-profit co-operatives and incorporated associations required by state or territory legislation to prepare financial statements in accordance with AAS or accounting standards are also subject to this ED.
- BC63 Entities not subject to the proposals in this ED (or the requirements in AASB 2019-1) continue to be able to prepare SPFS if they classify themselves as non-reporting entities, and where the SPFS are prepared other than in accordance with AAS. For these entities, the financial reporting framework applied in the SPFS would continue to be determined by the accounting policies selected by the directors or those charged with governance. For example, the directors or those charged with governance could adopt a basis of preparation based on AAS, the Tier 2 GPFS framework, RG 85, the IFRS for SMEs Standard, the NZ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit), the NZ Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit), UK FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other sources. Refer to paragraphs BC70, BC76, BC94 and BC97 for additional discussion.
- BC64 The Board conducted research into the number and types of specified for-profit entities lodging financial statements with ASIC and concluded there were approximately 12,797 specified for-profit entities lodging financial reports. This is based on the latest lodgements by all filing entities as at 30 July 2018, which was before the thresholds for large proprietary companies were doubled. Of these 12,797³⁰ entities, 6,763 were large proprietary companies,³¹ 3,102 were unlisted public companies and 2,932 were small proprietary companies controlled by a foreign company. Subsequent to the revision of the large proprietary thresholds, the Board expects there are approximately 10,500 specified for-profit entities that would be required to publicly lodge financial statements with ASIC.

Private sector entities that are required to comply with AAS, except for trusts and other entities with a non-legislative obligation to comply with AAS

- BC65 As noted in paragraph BC54, the Board decided this ED should apply only to for-profit private sector entities and that separate later consideration of the NFP private sector was needed for the following reasons:
- (a) the removal of SPFS would have a significantly greater impact on the NFP private sector compared with the for-profit private sector. Of those NFP private sector entities that are required to prepare financial statements and lodge them with the ACNC, research estimates that of the 36% of large and medium charities preparing and lodging SPFS with the ACNC, only a small portion (26%)³² are complying with the R&M requirements in AAS as compared to approximately 76% of specified for-profit private sector entities lodging financial statements with ASIC (see paragraph BC20). The substantially lower level of compliance in the NFP private sector would result in a much larger proportion of the NFP private sector reporting population being impacted by the proposals compared with the for-profit private sector;
 - (b) specified for-profit private sector entities that are required to prepare financial statements that comply with AAS have greater levels of economic significance, size and resources compared to NFP private sector entities. Proportionately, specified for-profit private sector entities are a significantly smaller number (less than 1.5% of the population of trading entities are required to prepare financial statements in accordance with AAS – see paragraph BC92 for more details), whereas approximately 33% of charities (15,828 large and medium charities out of a total of 47,125 charities registered with ACNC)³³ are required to prepare financial statements in accordance with AAS. Due to the differences in characteristics, the Board consider it more appropriate to consider the merits of a third tier of general purpose financial reporting for the NFP sector, as part of a separate project; and
 - (c) the unknown Government response to the ACNC legislative review which outlined the potential for change in reporting thresholds and obligations for affected entities. To proceed with NFP private sector financial reporting reform could be burdensome for certain NFP entities if the AASB would

30 Research Report 12.

31 This research was performed prior to Treasury doubling the thresholds used to determine large proprietary companies. Subsequently the Board noted that Treasury’s increasing of the thresholds would reduce the number of large proprietary companies to approximately 4,500.

32 AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium Sized Australian Charities* (August 2019).

33 ACNC 2017 Annual Information Statement Data, as at 24 July 2019.

require them to comply with the R&M requirements in AAS, but the ACNC subsequently relieved them of any financial reporting obligations once the ACNC legislative review is finalised.

- BC66 Some respondents to ITC 39 were concerned about the NFP private sector being delayed and felt that the AASB should either prioritise the NFP private sector financial reporting framework reform, or should continue to work on it concurrently with the for-profit private sector financial reporting framework reform. The basis of those respondents' concerns were mixed. Some were concerned that considering the for-profit and NFP financial reporting frameworks separately was not consistent with the objective of transaction neutrality and that the Board would develop different reporting requirements for the NFP sector compared with the for-profit private sector, which would decrease comparability and consistency of financial reports. Others were concerned the NFP private sector has specific needs that should be considered in advance or else a framework may be imposed on the NFP private sector that is fit for purpose in the for-profit private sector but not in the NFP private sector.
- BC67 The Board considered this feedback and noted that *The AASB's Not-for-Profit Entity Standard-Setting Framework* provides for NFP sector specific modifications where justifiable. For this reason, notwithstanding the outcomes in the for-profit private sector, a thorough consideration of their appropriateness in accordance with *The AASB's Not-for-Profit Entity Standard-Setting Framework* would be required, and if the for-profit financial reporting framework was determined not to be suitable for NFP entities, the for-profit proposals would be modified as needed. This assessment would be required, even if the for-profit and NFP reforms were undertaken concurrently.

Legislative references to AAS and the meaning of True and Fair

- BC68 The Board also conducted research (AASB Research Report No. 10 *Legislative and Regulatory Financial Reporting Requirements* (March 2019)) to identify those entities with financial reporting obligations under Federal and State/Territory legislation. The research grouped the identified financial reporting obligations into different categories, based on the nature of the financial reporting requirement (for example a requirement to prepare financial statements according to AASB accounting standards was categorised separately from a requirement to prepare financial information in accordance with AASB accounting standards, which would not require preparation of a complete set of financial statements as defined in paragraph 10 of AASB 101. This research was then used to determine which categories of for-profit private sector entities should be within the scope of this ED.
- BC69 In particular, the Board considered whether entities that are required by legislation to prepare financial statements that give a true and fair view without reference to compliance with AAS at the same time (for example small co-operatives and entities reporting under state and territory gaming legislation) should be affected by these proposals. The Board noted the *Corporations Act 2001* envisages compliance with the accounting standards might not necessarily result in financial statements that provide a true and fair view. In addition, the UK Financial Reporting Council paper *True and Fair* from June 2014 confirmed the primacy of the true and fair requirement above compliance with accounting standards. Following consultation with other regulators responsible for the legislation referring to true and fair, the Board considered that it should be a matter for each regulator to decide as to how to interpret the relevant legislation in relation to 'true and fair view' and noted that to require compliance with AAS whenever legislation required entities to give a true and fair view could possibly have significant unforeseen consequences. Accordingly, the Board decided the application paragraphs of AAS to implement these proposals should not explicitly refer to true and fair at this time (see category 5) in the Summary of scope table in paragraph BC84 below).
- BC70 The Board also decided that for-profit private sector entities that are required under legislation to prepare financial information in accordance with AASB accounting standards (ie of which a complete set of financial statements under paragraph 10 of AASB 101 is not required) would not be within the scope of the proposals in this ED (see category 5) in the Summary of scope table in paragraph BC84 below).
- BC71 In reviewing the legislative references, the Board noted that in some instances legislation referred to 'accounting standards', rather than 'Australian Accounting Standards'. The Board decided that the application paragraphs of AAS should include entities that are required by legislation to comply with 'accounting standards' as well as 'Australian Accounting standards'. In making this decision, the Board noted that it is reasonable to expect that legislators intended compliance with accounting standards as issued by the AASB when that term is used under Australian legislation (see category 5) in the Summary of scope table below). However, on the same premise, the Board decided that the application paragraphs would only capture references to AAS for entities with a non-legislative requirement, as in those cases it is less clear as to whether the constituting document would have intended to refer to accounting standards as issued by the AASB, when the term 'accounting standards' is used (see category 7) in the Summary of scope table in paragraph BC84 below).

Public sector entities

BC72 The Board decided that separate consideration of the public sector was needed because, unlike in the for-profit private sector and NFP private sector, public sector financial reporting is arguably too extensive and not targeted enough to enable public sector entities to be held sufficiently to account. For example, government departments are effectively administrative constructs, and requiring Tier 1 GPFS for all such departments when they are also included in Whole of Government (WoG) GPFS means users might not be directed to the key budget versus actual and service performance reporting information that would enable genuine accountability. Therefore, the Board decided it would pursue financial reporting reform in the public sector via consultation based on the AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector*, which was issued in June 2018, rather than as part of Phase 2 of ITC 39 (see categories 2,3 and 8) in the Summary of scope table in paragraph BC84 below).

Trusts and other entities with a non-legislative requirement to comply with AAS

BC73 When deciding on the scope of Phase 1 of ITC 39 the Board's intention was to allow entities to maintain compliance with IFRS Standards, not to extend the requirement for entities to prepare GPFS if they were not currently required by legislation to do so. Respondents to ITC 39 identified some entities that may be affected by the amendments proposed in Phase 1, such as trusts required by their constitutional document (rather than legislation) to prepare financial statements that comply with AAS. They do not have any legislative requirement to prepare such financial statements and may be currently preparing SPFS. Therefore, transitioning to GPFS could be burdensome for those trusts.

BC74 Consequently, the Board decided to limit Phase 1 to for-profit private sector entities that have public accountability and are required by legislation to comply with AAS, however it noted that the appropriateness of this limitation would be reconsidered as part of Phase 2 after additional research and outreach was performed.

BC75 When reconsidering the appropriateness of this limitation the Board considered entities with a non-legislative requirement to prepare financial statements that comply with AAS more broadly than just those affected by Phase 1, noting there were likely to be a significant number of additional trusts possibly affected by Phase 2.

BC76 Based on discussions with legal advisors and additional targeted outreach, it is expected that the constituting documents of most trusts contain a requirement for them to prepare financial statements in compliance with AAS (albeit they might refer to 'accounting standards'). These financial statements are prepared for a specific purpose and a specific user (eg the beneficiary/ies of a trust). It is also understood that many such entities, particularly 'non-corporate' trusts, prepare SPFS.

BC77 The Board noted that:

- (a) as the financial statements are prepared for specific users, those users have the ability to command whatever information they require from the entity;
- (b) there is no external regulator of financial reporting for trusts; and
- (c) the financial statements of trusts are not lodged on public record.

BC78 For these reasons, the Board considered whether it was appropriate to provide some form of relief to them, as the Board noted that while changing constitutional documents to remove the requirement to comply with AAS is possible, it can be onerous and if not done correctly can have tax consequences.

BC79 Targeted outreach was undertaken to understand the number of trusts that may be affected by the proposals in this ED, including their size (with reference to income and assets). This was to determine whether it was possible to develop objective criteria related to economic significance for distinguishing between those trusts that should be required to comply with the proposals contained in this ED and those that should be exempted. The Board considered whether the thresholds used for determining what constitutes a large proprietary company could be an appropriate benchmark for this purpose.

BC80 While there are a large number of trusts undertaking business activities and therefore lodging tax returns with the ATO, data provided by the ATO indicates that a small minority of them would meet the increased income and assets thresholds used for determining what constitutes a large proprietary company.

BC81 The Board also noted there are entities other than trusts that may currently have a requirement to prepare financial statements in accordance with AAS in their compliance documents but are not required to do so by legislation, such as partnerships, joint arrangements and self-managed superannuation funds, as well as entities subject to other requirements such as lending agreements. As these entities also have specific users, the Board decided that the issues identified above would be equally relevant to such entities.

BC82 The Board therefore decided that existing for-profit private sector entities should be provided with an exemption from the requirement to prepare GPFS where they do not have a legislative requirement to prepare

financial statements that comply with AAS. However, the Board decided this exemption should only apply where their constituting document (or another document) requiring them to comply with AAS was created or amended before 1 July 2020 (the proposed effective date of the proposals in this ED) – ie any amendments to or creation of such documents on or after 1 July 2020 would require the entity to prepare GPFS where it referred to the preparation of financial statements that comply with AAS (see category 6) in the Summary of scope table below).

BC83 The Board decided the exemption should be limited. If an entity were required to make an amendment to the constituting document for any reason after the effective date of the proposed amendments, then the trustee for example could at the same time amend the financial reporting requirements, subject to the agreement of the beneficiaries. Further, the relief should not be available to an entity whose constituting document was created after the effective date of the proposed amendments, as when drafting the constituting document, the beneficiaries should have determined their information needs including whether or not they required GPFS.

Summary of scope

BC84 The examples in the table below illustrate the types of entities that would be generally covered in the category but some entities may have different specific requirements:

	Entity	In scope/ out of scope of the project
1	Not-for-profit private sector entities including NFP entities that are companies limited by guarantee and lodging financial statements with ASIC under the <i>Corporations Act 2001</i>	Not in scope
2	Not-for-profit public sector entities	Not in scope
3	For-profit public sector entities³⁴	Not in scope
	For-profit private sector entities	
4	Companies lodging financial statements under the <i>Corporations Act 2001</i> principally : <ul style="list-style-type: none"> - large proprietary companies; - unlisted public companies other than small companies limited by guarantee; - small proprietary companies controlled by a foreign company; - financial services licensees; and - small proprietary companies with crowd-sourced funding. 	In scope
	Companies preparing financial statements under the <i>Corporations Act 2001</i> because they are directed by ASIC or shareholders to prepare financial reports.	This will depend on what the direction requires ³⁵
5	- Entities with financial reporting obligations under Federal or State/Territory legislation (ie required by legislation) to:	
	- prepare financial statements in accordance with AAS or accounting standards (eg co-operatives, incorporated associations and higher education providers)	In scope
	- prepare financial statements that give a true and fair view without reference to compliance with AAS or accounting standards (eg gaming venue operators, internet gaming licensees)	Not in scope – each regulator to interpret the reference to ‘true and fair view’
	- prepare financial information in accordance with AAS or accounting standards but are not required to prepare financial statements as defined in paragraph 10 of AASB 101 (eg friendly societies, superannuation funds, retirement villages)	Not in scope
	- prepare financial information that gives a true and fair view but not to prepare financial statements as defined in paragraph 10 of AASB 101 (eg incorporated associations or housing societies)	Not in scope
	- prepare financial information without reference to AAS or accounting standards (eg for provision to a regulator)	Not in scope

³⁴ For-profit public sector entities can elect (voluntarily) to prepare GPFS and apply the revised Conceptual Framework.

³⁵ These companies will be in scope when the direction requires financial statements to be prepared in accordance with AAS or accounting standards.

	Entity	In scope/ out of scope of the project
	keep financial records (but not prepare financial statements) (eg small proprietary companies not required by the <i>Corporations Act 2001</i> to prepare financial statements)	Not in scope
6	- Entities required only by their constituting or another document (not by legislation) to prepare financial statements that comply with AAS (eg trusts, partnerships, joint arrangements and self-managed superannuation funds):	
	- existing entities – constituting or other document not created or amended on or after 1 July 2020	Not in scope
	- existing entities – constituting or other document amended on or after 1 July 2020	In scope
	- new entities – constituting or other document created on or after 1 July 2020	In scope
7	Entities required only by their constituting or other document (not by legislation) to prepare financial statements that comply with “accounting standards” (rather than AAS) (eg trusts, partnerships, joint arrangements and self-managed superannuation funds).	Not in scope
8	Entities that elect (ie voluntarily) to prepare GPFS (eg for-profit public sector entities or other for-profit private sector entities) and:	
	- apply the <i>Conceptual Framework for Financial Reporting</i> (ie the revised Conceptual Framework)	In scope
	- apply the <i>Framework for the Preparation and Presentation of Financial Statements</i>	Not in scope

BC85 Having determined the entities to be caught within the scope of this ED, the Board considered how best to revise the Tier 2 GPFS framework to appropriately balance the costs and benefits of the proposals. The following section summarises the Board’s deliberations on revising the Tier 2 GPFS disclosure framework (that is detailed in the separate, but related ED, ED 295).

Tier 2 GPFS Framework

BC86 As noted in paragraph BC6, the Board acknowledges that it would be inappropriate to remove the ability of certain for-profit private sector entities to prepare SPFS where they are required to prepare financial statements that comply with AAS, and replace them with GPFS, without reconsidering the Tier 2 GPFS framework, because the current Tier 2 GPFS framework is considered too onerous. The Phase 2 approach in ITC 39 contemplated revising the Tier 2 GPFS framework in AASB 1053 to include one of two alternatives as noted in paragraph BC55:

- (a) RDR – The existing Tier 2 GPFS framework as currently exists in AASB 1053, consisting of full R&M, including consolidation and equity accounting (where applicable) with reduced disclosures from each applicable AAS; and
- (b) SDR – A new Tier 2 GPFS framework that would consist of full R&M including consolidation and equity accounting (where applicable), however with specified disclosures from some AAS. Those standards are those that are currently mandatory for entities required to prepare financial statements in accordance with Chapter 2M of the *Corporations Act 2001*, being AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054, plus the disclosures required by AASB 124 *Related Party Disclosures*, AASB 136 *Impairment of Assets*, AASB 15 *Revenue from Contracts with Customers* and AASB 112 *Income Taxes*.

BC87 As noted in paragraph BC57, the feedback from the roundtables, user and preparer surveys and submissions on Phase 2 of ITC 39 indicated that:

- (a) RDR has too many disclosure requirements; and
- (b) SDR is too much in some ways but falls short in many other ways. For example, the feedback received from roundtables, user and preparer surveys and submissions on Phase 2 of ITC 39 was that whilst the disclosures in SDR are important, requiring all disclosures from those nine Standards was too much. Most participants further suggested that SDR might not be appropriate for all industry

sectors and is missing some critical disclosures to help predict the viability of an entity such as liquidity, contingent liabilities, subsequent events and commitments.

- BC88 The Board further noted transition costs, and the ongoing costs of training and maintenance of either two Tier 2 GPFS frameworks or even three tiers of GPFS reporting for users, preparers, auditors and regulators for only 1.3%³⁶ of actively trading entities outweighs any potential benefits.
- BC89 As a consequence, the Board decided to propose a third alternative to replace the current disclosure aspects of Tier 2 GPFS disclosure framework, being a new and separate disclosure standard for entities reporting under the Tier 2 GPFS framework, termed ‘Simplified Disclosures Standard’. It would be based on the disclosure requirements of the IFRS for SMEs Standard.
- BC90 The disclosures required by the Simplified Disclosures Standards are proposed in a separate but related ED, ED 295, and have been developed via a ‘bottom-up’ approach based on the disclosures in the IFRS for SMEs Standard, without reference to the full IFRS disclosures (ie no shading).

One Tier 2 GPFS Framework

- BC91 Some respondents to Phase 2 of ITC 39 suggested that more than one Tier 2 GPFS framework was necessary, as having only one Tier 2 GPFS framework is too limited.
- BC92 As note in paragraph BC65, the Board noted that of the 2.5 million companies registered with ASIC in 2016-2017, only approximately 840,000 were actively trading, and of those there were only approximately 12,797 specified for-profit private sector entities that were required to prepare financial statements (at July 2018). This represents approximately only 1.5% of the total population of trading entities. The Board further noted that Treasury’s increase of the large proprietary company thresholds would further reduce this number to 1.3% of the population of trading entities. The Board noted that this is a very small proportion of the total number of trading entities and having one Tier 2 GPFS framework for this population was sufficient.
- BC93 The Board also noted the results of a survey conducted by an accounting firm in Australia that asked respondents to answer a polling question regarding whether additional tier(s) of GPFS reporting should be considered. In response, 52% (118 of the 228 respondents) stated no, 18% (41 of the 228 respondents) stated yes and 30% (69 of the 228 respondents) weren’t sure. The Board however noted that of those respondents who answered ‘yes’ to this question, a number of them provided suggestions specific to the NFP sector.
- BC94 Some respondents felt that additional tiers of GPFS reporting with varying degrees of disclosure may be useful, as entities preparing financial statements range in size and complexity. The Board emphasised that entities without a statutory requirement to comply with AAS, such as those below the now-doubled large proprietary company thresholds in the *Corporations Act 2001*, would be able to continue to tailor their financial statements to the needs of their specific users and therefore additional tiers of GPFS reporting were not required. Further, there are only an estimated maximum of approximately 4,500 entities (subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company) that may be required to prepare financial statements under Part 2M.3 of the *Corporations Act 2001* who would be able to use a Tier 2 GPFS framework (including those currently preparing Tier 1 and Tier 2 GPFS). As noted in paragraph BC88 above, transition costs, and the ongoing costs of training and maintaining either two Tier 2 GPFS frameworks or even three tiers of GPFS reporting for users, preparers, auditors and regulators for only 1.3% of actively trading entities would also outweigh any potential benefits
- BC95 Further, separating this already small proportion of the total population (ie 1.3% or approximately 10,500 entities) into more than one tier would require objective criteria on which to make this separation. Treasury’s recent consultation on the proposals to increase the thresholds used for determining what constitutes a large proprietary company considered this, and determined there should only be a large, small distinction.
- BC96 As noted in paragraph BC63, entities not subject to the proposals in this ED (or the requirements in AASB 2019-1) would continue to be able to prepare SPFS if they classify themselves as non-reporting entities.
- BC97 Further, as noted in paragraph BC44(b), the few AAS that are mandatory for SPFS are focussed on the presentation of and disclosure in financial statements, rather than R&M requirements, and cannot be considered an appropriate financial reporting framework. For this reason, when preparing SPFS, directors and those charged with governance are responsible for determining the financial reporting framework of the entity by specifying the accounting policies (ie R&M requirements). The directors and those charged with governance are also responsible for ensuring the financial reporting framework is appropriate to meet the needs of the users of their SPFS.
- BC98 A key theme noted through submissions and outreach on Phase 2 of ITC 39 was the need for comparability across publicly lodged financial statements, particularly in relation to R&M requirements (see paragraphs BC99-BC104). As such, the Board decided that creating additional tiers of GPFS reporting for such a small proportion of the total population of trading entities would not adequately meet the objective of creating a

36 This is subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company.

consistent and comparable financial reporting framework, and could lead to unnecessary complexity for financial statement users of such a small proportion of the population when trying to determine which tier of GPFS reporting requirements have been applied to the financial statements. Further, separating this population into two separate tiers would require objective criteria on which to make this separation. The Board noted that Treasury has just consulted on the thresholds used for determining what constitutes a large proprietary company and determined there should only be a large, small distinction. Also, small foreign-controlled entities would likely be required to use the R&M requirements of their parent entities that are unlikely to be using the IFRS for SMEs Standard, and finally, approximately 90%³⁷ of unlisted public companies preparing and lodging financial statements with ASIC already comply with the R&M requirements in AAS.

R&M requirements of Tier 2

BC99 The Board noted the strong preference expressed by respondents to Phase 2 of ITC 39 for a framework that includes the full R&M requirements in AAS as it would enhance the comparability, consistency and transparency of the financial statements. Feedback from targeted outreach emphasised that users agreed that the usefulness of information within financial statements for decision making is adversely affected where entities have not consistently applied the R&M requirements in AAS.

BC100 The findings noted in Research Report No. 12 estimates that 76% of specified for-profit entities that are lodging SPFS with ASIC are complying with the R&M requirements in AAS (see paragraph BC20). Therefore, the Board considered that moving to a Tier 2 GPFS framework that is not based on the full R&M requirements in AAS is counter-intuitive when trying to improve the consistency, comparability, usefulness and credibility of financial reporting in Australia.

BC101 The Board did however re-evaluate the suitability of the IFRS for SMEs Standard as the Tier 2 GPFS framework in Australia and reconfirmed that the IFRS for SMEs Standard continues not to be a preferred option for the for-profit private sector in Australian for the following reasons:

- (a) users specifically identified the comparability of the R&M requirements in AAS as a key concern. The IFRS for SMEs Standard has different R&M requirements compared to AAS, and to meet user needs for comparability, all for-profit private sector entities within the scope of this ED would need to apply the IFRS for SMEs Standard (with it being the only Tier 2 GPFS framework), or a third tier of GPFS reporting would need to be created;
- (b) to achieve a consistent Tier 2 GPFS framework, additional transitional costs would be expected to arise because based on the data in paragraph BC20, it is estimated that a majority of ASIC regulated entities currently lodging SPFS are already complying with the R&M requirements in AAS. To achieve a consistent Tier 2 GPFS framework and implement the IFRS for SMEs Standard, all of these entities, approximately 8,800 of the 10,500 specified for-profit entities lodging financial statements with ASIC (subsequent to Treasury increasing the thresholds used from determining what constitutes a large proprietary company) would need to change their accounting policies to adjust for the different R&M requirements contained in the IFRS for SMEs Standard. That is, all of the specified for-profit entities preparing Tier 1 GPFS, Tier 2 GPFS or SPFS which comply with the R&M requirements in AAS.

In comparison only the 10% that currently don't comply with the R&M requirements in AAS and potentially the 14% where it's unclear whether or not they have complied with the R&M requirements in AAS (approximately up to 1,700 entities in total) would be required to change their accounting policies to align with the R&M requirements in AAS. Therefore, a larger population of preparers would see an increase in the costs associated with the transition from SPFS to GPFS if the Tier 2 GPFS framework were based on different R&M requirements; and

- (c) having different R&M requirements is not consistent with ASIC and other regulators' views that the full R&M requirements of accounting standards should be applied in order to give a 'true and fair view' of the financial position and performance of an entity.³⁸
- (d) there is no need for a third tier of GPFS reporting as approximately 98.7% of the 840,000 trading entities only have an obligation to prepare and lodge a tax return with the ATO. Further, creating a third tier would require objective criteria on which to make this separation, and Treasury has just consulted on the thresholds used for determining what constitutes a large proprietary company and determined there should only be a large, small distinction. Also, small foreign-controlled entities would likely be required to use the R&M requirements of their parent entities that are unlikely to be using the IFRS for SMEs Standard, and finally, approximately 90%³⁹ of unlisted public companies preparing and lodging financial statements with ASIC already comply with the R&M

³⁷ Research Report 12.

³⁸ See, for example, section 2 of RG85.

³⁹ Research Report 12.

requirements in AAS. Subsidiaries would also need to provide additional information to be compliant with IFRS Standards for the purpose of consolidating into their parent's consolidated financial statements where the parent applies Tier 1 AAS or IFRS Standards;

- (e) the IFRS for SMEs Standard would result in reduced comparability between entities preparing full IFRS Standards compliant financial statements because of different accounting policy alternatives due to different R&M requirements;
- (f) in the event an entity moves to, or from, preparing financial statements applying full IFRS Standards, there would be costs involved in transitioning from the R&M requirements of one tier of reporting to another. Transition costs, and the ongoing costs of training and maintaining either two Tier 2 GPFS frameworks or even three tiers of GPFS reporting for users, preparers, auditors and regulators for only 1.3%⁴⁰ of actively trading entities would also outweigh any potential benefits;
- (g) the feedback received on Phase 2 of ITC 39 suggested that applying the consolidation and equity accounting requirements for the first time would be the most difficult aspect of transitioning from SPFS to GPFS, however consolidation and equity accounting are both required under the IFRS for SMEs Standard. As such, it does not appear that adopting the IFRS for SMEs Standard would mitigate these concerns;
- (h) using a single basis for the R&M requirements in AAS would support efficiency in the education of accountants and financial statement users;
- (i) the use of the IFRS for SMEs Standard would decrease harmonisation with New Zealand further than the proposals in this ED, as the New Zealand financial reporting framework for for-profit entities has only two tiers and does not use the IFRS for SMEs Standard; and
- (j) despite the issues noted above that would be faced if the IFRS for SMEs Standard were to be adopted, the IFRS for SMEs Standards is based on full IFRS Standards, and does not appear to depart significantly from the IFRS Standards (see AASB Staff Paper *Comparison of Standards for Smaller Entities* (April 2018)). This is acknowledged by the IASB in the Basis for Conclusions to the IFRS for SMEs Standard, which also notes that the needs of users of financial statements of small and medium sized entities are similar in many ways to the needs of users of publicly accountable entities.⁴¹ As such, it appears unlikely that the benefits of moving to the IFRS for SMEs Standard would outweigh the costs noted above.

BC102 The Board also noted that any possible reduction in on-going compliance costs or alleviation of concerns that the R&M requirements of IFRS Standards are too complex which may arise from having the IFRS for SMEs Standard as the Tier 2 GPFS framework, would not be significant enough to outweigh the loss of benefit to users (ie the loss of consistency and comparability of R&M requirements in AAS), because as noted above, the IFRS for SMEs Standard still requires consolidated financial statements and equity accounting, along with deferred tax accounting, lease accounting, fair valuing of derivatives and other complex financial instruments and related party disclosures that are not substantively different from the full requirements in AAS.

BC103 The Board further noted that 65% of respondents to Phase 2 of ITC 39 did not agree with having the IFRS for SMEs Standard as the Tier 2 GPFS framework in Australia.

BC104 In light of the above, as noted in paragraph BC90, the Board decided to propose a new and separate Tier 2 GPFS framework that would have the R&M requirements of Tier 1 (including consolidation and equity accounting) and the disclosure requirements of the IFRS for SMEs Standard.

BC105 The proposed Tier 2 GPFS framework would replace the existing Tier 2 GPFS RDR framework and would be available for application by for-profit private sector entities that do not have public accountability, NFP private sector entities and public sector entities other than the Australian Government and State, Territory and Local Governments, and would replace the existing Tier 2 GPFS RDR framework.

Consolidation requirements of Tier 2 GPFS framework

BC106 Anecdotally, the Board is aware that some entities preparing SPFS are parent entities but do not prepare consolidated financial statements, and some of those entities are also not providing an explanation as to why they have not prepared consolidated financial statements.

BC107 While considering how best to revise the Tier 2 GPFS framework, the Board also contemplated whether it was possible to provide financial information about subsidiaries in a more cost effective way, such as by providing summary financial information in the consolidated financial statements of the parent instead of a complete set of financial statements for the subsidiary. The Board undertook research (not yet published) to assess the suitability of current reporting requirements where the views of different lending institutions were

⁴⁰ This is subsequent to Treasury increasing the thresholds used for determining what constitutes a large proprietary company.

⁴¹ IFRS for SMEs Standard, Basis for Conclusions, paragraph BC96.

sought. The feedback received showed there is a need for both a full set of subsidiary financial statements and the consolidated financial statements of the group. Feedback received from users in response to the AASB's user survey and submissions to ITC 39 also highlighted the need for consolidated financial statements.

- BC108 The majority of the lending institutions interviewed mentioned that in the case of group structures, they require the consolidated financial statements of the group to make their lending decisions and that these are particularly important when:
- (a) there is structural subordination within group structures;
 - (b) there is a deed of cross guarantee;
 - (c) banks have legal recourse to the assets of the consolidated group;
 - (d) lending to a subsidiary is in the form of a credit enhancement to the whole group; and
 - (e) lending is to a subsidiary that does not have substantial operations and it is a financing vehicle.
- BC109 Similarly, feedback from users mentioned that in order to make decisions, they require:
- (a) consolidated financial statements including note disclosures (which include all assets, liabilities, revenues and expenses of the parent and all subsidiaries); and / or
 - (b) consolidated financial statements including note disclosures plus some parent entity information to understand their dividend paying capacity.
- BC110 The feedback noted in paragraphs BC108-BC109 provided further support to the Board's view that consolidated financial statements are essential to provide users with transparent and complete information about the financial position and financial performance of the group and the entities in the group.
- BC111 Although the Board decided that a revised Tier 2 GPFS framework would help facilitate the removal of SPFS, it also decided that transitional relief in addition to what is currently available in AASB 1 was warranted to further assist entities with transition from SPFS to Tier 2 GPFS, as noted in paragraphs BC112-BC122.

Transition

Feedback from ITC 39

- BC112 In developing ITC 39, the Board acknowledged that some entities might incur additional costs, particularly on transition from SPFS to Tier 2 GPFS. As such, the Board included specific matters for comment in ITC 39 seeking feedback on what transitional relief should be provided, in addition to that already available in AASB 1. Feedback on transitional relief was also sought by the Board in its roundtable discussions, surveys, webinar and individual meetings with constituents.
- BC113 Feedback from outreach activities related to Phase 2 of ITC 39 and specifically on transitional matters was mixed. Whilst some constituents agreed that AASB 1 would be sufficient to facilitate transition, others were either unclear on whether AASB 1 would be sufficient, or argued that more transitional relief was necessary. The Board noted two common areas of suggestion for transitional relief:
- (a) relief from consolidation and equity accounting, particularly in relation to the retrospective application of AASB 3 *Business Combinations*; and
 - (b) relief from the requirement to restate a comparative period on transition from SPFS to Tier 2 GPFS.
- However, the Board noted that despite requesting more information, constituents did not articulate the specific aspects of the above-mentioned transitional issues that would be particularly costly or onerous.

Options considered

- BC114 In deliberating the options for transitional relief, the Board noted AASB 1053, which requires an entity to either apply all the relevant requirements in AASB 1 or instead apply the requirements in AASB 108, to transition from its most recent SPFS to Tier 2 GPFS, if that entity had not applied or had only selectively applied the R&M requirements in AAS in those SPFS. The Board noted that entities already complying with the R&M requirements in AAS would not need transitional relief, given that such entities are required to merely continue applying the applicable R&M requirements in accordance with AASB 1053.
- BC115 In light of constituent feedback that consolidation and equity accounting would be the most challenging aspects of transition, the Board specifically considered the relief provided by AASB 1 from the need to retrospectively account for past business combinations (a specific challenge noted for consolidation and equity accounting). The Board concluded that the application of AASB 1 already provides significant and sufficient relief to address the constituents' concerns noted in paragraph BC113(a).

BC116 The Board also noted:

- (a) **Doubling of thresholds for large proprietary companies:** As noted in paragraph BC34, Treasury doubled the thresholds used for determining what constitutes a large proprietary company. Based on the data available from a data aggregator for the latest lodgements by all filing entities as at 30 July 2018 (being before the doubling of the thresholds), as noted in paragraph BC64, there were a total of 6,763 large proprietary companies that had lodged financial statements with ASIC, out of which 5,500 entities filed SPFS. The doubling of the thresholds reduced the total population of large proprietary companies by approximately one third. Based on the revised thresholds, the same data from a data aggregator indicates that a maximum of approximately 3,666 large proprietary companies would be required under the proposals in this ED to transition from SPFS to Tier 2 GPFS.
- In addition, the Board noted the Explanatory Statement accompanying the revision of the thresholds that had outlined the expectation that larger entities are more likely to have users that are dependent on the entity's GPFS. Further, the Explanatory Statement also noted that the average access rates for financial reports through ASIC for the remaining population of large proprietary companies is significantly higher than for those entities that would now be small proprietary companies (see paragraph BC39(c)).
- The Board considered that such economically significant companies are expected to have sufficient skills and resources to cope with any transitional challenges within the current requirements.
- (b) **Findings from Research Report No. 12:** One of the key findings of this research is that overall it is estimated that 76% of specified for-profit entities lodging SPFS with ASIC comply with the R&M requirements in AAS; 10% did not comply with the R&M requirements in AAS, while for the remaining 14% it was unclear whether or not they complied with the R&M requirements in AAS. As noted in paragraph BC114, entities already applying all of the R&M requirements of AAS would not require transitional relief.
- While the Board noted that these results focused only on compliance with R&M requirements in their lodged SPFS and therefore did not identify whether entities prepared consolidated financial statements, the results show that out of approximately 7,295⁴² for-profit entities lodging SPFS with ASIC following the revision of the large proprietary company thresholds, only 10% to 24% (approximately 600 to 1,700 entities) are expected to be affected by the proposals in this ED. This is because 76% of the specified for-profit entities lodging SPFS with ASIC are already complying with the R&M requirements in AAS. The Board also noted that this number may be further reduced as the research showed a clear correlation between entity size and compliance with the R&M requirements in AAS, with the level of compliance increasing with company size.
- Further, the Board noted that the primary reason for 6% of entities that did not comply with the R&M requirements in AAS was due to not applying AASB 112 in full, however constituents have not raised AASB 112 as being problematic for the purpose of transition.
- (c) **Insufficient compelling evidence from extensive outreach:** The Board performed extensive outreach and asked for specific information on transitional relief that might be needed through formal comments on ITC 39, roundtables in capital cities and over 200 meetings with individual stakeholders, and did not receive compelling evidence or suggestions identifying specific issues that needed transitional relief. Further, no specific feedback was received from small foreign-controlled proprietary companies or unlisted public companies not limited by guarantee.
- (d) **The AASB's For-Profit Entity Standard-Setting Framework:** The Board noted the presumption that IFRS Standards are appropriate as a base for all entities, with particular regard to the fact that AASB 1, which incorporates IFRS 1 *First-Time Adoption of International Financial Reporting Standards* had been developed by the IASB to reduce the cost of first-time adoption of IFRS Standards so that it does not outweigh the benefits of adoption. The Board also observed that the application of AASB 1 has been an appropriate base for entities transitioning to AAS since 2005, including a large number of entities that transitioned due to the requirement for SGEs that were required to transition from SPFS to GPFS for reporting periods ending on or after 30 June 2017. Paragraphs BC130-BC132 provide further discussion on how the Board applied *The AASB's For-Profit Entity Standard-Setting Framework* in arriving at the proposals in this ED.
- (e) **No adverse feedback from entities that transition as a result of the SGE requirements:** Despite specifically requesting feedback, the Board was not made aware of any significant transitional issues faced by the SGEs that were required to begin lodging GPFS with the ATO. These entities would have transitioned using the current requirements of AASB 1. The Board has also not heard any adverse feedback from the ATO on the quality of the financial reports that have been lodged.

42 3,666 large proprietary companies, 1,252 unlisted public companies not limited by guarantee and 2,377 small foreign-controlled proprietary companies

Further, the Board noted that many of the entities that have already transitioned to preparing GPFS as required by the SGE legislation, are entities expected to be within the scope of the proposals in this ED (ie they are required to prepare financial statements under Part 2M.3 of the *Corporations Act 2001* and are now preparing GPFS). As a result, there are likely to be fewer entities required to transition from SPFS to GPFS as a result of the proposals contained in this ED. Further the Board does not expect the reporting requirements for these SGE entities to be any more onerous as a result of the proposals in this ED (ie they will continue to prepare GPFS as required by SGE legislation).

BC117 Nevertheless the Board considered three possible options to provide transitional relief in addition to what is available under AASB 1, as follows:

Option	Nature of the relief considered	Key factors considered
<p>'Push-down accounting' for entities that are subsidiaries of an IFRS Standards and / or AAS compliant parent</p>	<p>To allow subsidiaries that are consolidating into the financial statements of an AAS or IFRS Standards compliant parent to recognise amounts reported in their reporting / consolidation pack (which would have been derived from acquisition date fair values) to be deemed cost in their individual financial statements (subject to requiring them to recognise only those assets and liabilities that qualify for recognition under AAS in the subsidiary's own financial statements).</p>	<p>The Board noted that advantages of this relief would include:</p> <ul style="list-style-type: none"> (a) no need to keep two sets of parallel accounting records (ie one set for group reporting purposes and another set for its own mandatory Tier 2 GPFS); and (b) opening balances would still be based on AAS principles, albeit measured at a different point in time. <p>However, the Board decided not to propose this relief:</p> <ul style="list-style-type: none"> (a) for the reasons noted in paragraph BC116; (b) because this relief would have been inconsistent with <i>The AASB's For-Profit Entity Standard-Setting Framework's</i> presumption that IFRS Standards are an appropriate base; (c) because anecdotally, adjusting balances to be consistent with AAS is not the most difficult area of transition, rather it is more difficult to restate prior periods; (d) because the relief would only be available for a limited number of entities, which would likely be foreign-controlled and hence subject to public interest. It was not clear to the Board, the number of entities that would be able to utilise this relief in any case; and (e) because such relief would reduce comparability with other entities that are transitioning from SPFS to GPFS.
<p>Relief from recognising 'deferred goodwill' if applying paragraph C4(j) of AASB 1.</p>	<p>Provide a parent entity applying the relief in AASB 1 Appendix C in relation to previously unconsolidated subsidiaries with an option to write off 'deemed goodwill' immediately in retained earnings, rather than recognise it and then be required to undertake day 1 and annual impairment testing.</p>	<p>The Board noted that advantages of this relief would include:</p> <ul style="list-style-type: none"> (a) the potential to reduce the cost of undertaking an impairment test at the date of transition and ongoing annually; and (b) that it would provide relief for entities consolidating for the first time, a key concern of respondents to Phase 2 of ITC 39. <p>However, the Board decided not to propose this relief:</p> <ul style="list-style-type: none"> (a) for the reasons noted in paragraph BC116; (b) because this relief would have been inconsistent with <i>The AASB's For-Profit Entity Standard-Setting Framework's</i> presumption that IFRS Standards are an appropriate base. In particular, the Board noted that this amendment would

Option	Nature of the relief considered	Key factors considered
		<p>fundamentally change the R&M requirements of AASB 1; and</p> <p>(c) because this relief could lead to significant loss of information about impairment for users and regulators.</p>
Relief from restating comparative information as required by AAS	To amend AASB 1 to specify that entities need not restate or present comparative information as required by AAS. This would mean the date of transition is the beginning of the reporting period (rather than the beginning of the comparative period).	<p>The Board decided to propose this relief (see the amendments proposed to AASB 1 in this ED), noting the advantages include:</p> <p>(a) the relief would facilitate the transition to GPFS in a more timely manner – for periods beginning on or after 1 July 2020 (on the assumption the proposals in this ED are issued as an amending standard prior to 30 June 2020). This would also mean that, effectively, the RCF and the removal of the ability of certain entities to prepare SPFS when they are required to prepare financial statements that comply with AAS would become effective for the first time in the same reporting period;</p> <p>(b) the relief was not expected to have implications for the R&M requirements in AAS, except to the extent that the change in the date of transition would lead to differences in opening balances based on a different date of transition; and</p> <p>(c) the relief would reduce costs to all entities required to transition from SPFS to GPFS.</p> <p>However, the Board did note some disadvantages, including:</p> <p>(a) reduced information for users – particularly in making trend analyses; and</p> <p>(b) the approach would require divergence from the presumption in <i>The AASB's For-Profit Entity Standard-Setting Framework</i> that IFRS Standards are appropriate as a base, albeit it would not a major deviation.</p>

BC118 For the reasons noted in the table in paragraph BC117, the Board decided against providing additional transitional relief in the form of ‘push-down accounting’ or immediate write-off of deemed goodwill against retained earnings. Instead, the Board decided it would utilise the ED due process to gather any additional feedback on the need for, and nature of, any additional transitional relief that may be necessary, other than that relating to the restatement and presentation of comparative information.

Relief from restating and presenting comparative information

BC119 As noted in the table in paragraph BC117, the Board concluded that relief from the restatement and presentation of comparative information in accordance with current AAS would be particularly beneficial as it could reduce preparation costs whilst providing a consistent, enforceable and transparent reporting framework (despite a lack of comparability in the year of transition), and thus decided that entities should not be required to provide restated comparative information as per current AAS in the year the Standard first becomes effective (see paragraphs BC126-BC129 for further considerations by the Board on the effective date).

BC120 However, the Board noted the particular importance for users:

- (a) to understand the effect of an entity’s transition from SPFS to Tier 2 GPFS on its assets, liabilities and equity; and
- (b) to have comparative information in the statement of profit or loss and other comprehensive income to facilitate trend analysis.

BC121 To balance the needs of users and the costs to preparers, the Board decided that a pragmatic approach would be to require an entity to:

- (a) present two statements of financial position ie as at the reporting date and at the beginning of the reporting period, with a comparative statement of financial position as presented in the entity's last SPFS disclosed in the notes to the financial statements. This would be supplemented with a description of the main adjustments that were required to make the opening statement of financial position compliant with AAS. To reduce costs, the Board decided an entity need not quantify those adjustments; and
- (b) present its statement of profit or loss and other comprehensive income as presented in its last SPFS as comparative information, but clearly labelled, where applicable, that such comparative information is not AAS compliant. This would be supplemented with disclosure in the notes to the financial statements describing the main adjustments that would have been required to make the comparative information compliant with AAS. Also to reduce costs, the Board decided an entity need not quantify those adjustments.

The Board decided not to allow the presentation of any of the other SPFS comparative information on the face of the financial statements, as the Board considered that it could be misleading and confusing to users to have comparative information that is not prepared in accordance with AAS.

BC122 Because the purpose of this relief is to facilitate transition from SPFS to Tier 2 GPFS, rather than a general first-time adoption of GPFS, the Board decided the additional transitional relief from restatement of comparative information should not be available beyond the first year in which the Standard becomes effective. That is, on the assumption the proposed effective date is adopted, the proposed transitional relief in respect of comparative information would only be available for annual reporting periods beginning on or after 1 July 2020 but before 1 July 2021. The Board also decided for pragmatic reasons that the transitional relief from restating comparatives will be available regardless of whether an entity had a legislative or other requirement to comply with AAS in prior periods.

Amendments to AASB 1053

BC123 However, the Board also decided that it would be appropriate to amend the requirements in AASB 1053 for the transition from SPFS to Tier 2 GPFS generally. The Board decided to amend paragraph 18A to explicitly state that non-compliance by a parent entity with AASB 10 in its previous SPFS would require the entity to apply either AASB 1 or AASB 108. This would require the entity to prepare consolidated financial statements if required by AASB 10, but would also permit the entity to elect to apply the business combination exceptions set out in AASB 1, Appendix C.

BC124 The Board considered whether to explicitly refer also to the equity method of accounting for investments in associates and joint ventures, and concluded that this was not necessary. As the equity method of accounting affects the measurement of the investments and the presentation in the statement of profit or loss and other comprehensive income, it is clear that the existing references in paragraph 18A to the recognition and measurement requirements of AAS cover application of the equity method. In any case, paragraph 9 of AASB 1053 now states that the recognition and measurement requirements include both consolidation and the equity method of accounting. The explicit references to consolidated financial statements added to paragraph 18A therefore emphasise their coverage.

BC125 The Board noted that paragraph 18A(a) of AASB 1053 as amended would permit an entity to apply the transition relief available under AASB 1, and thus potentially restate recognised amounts, even if the previous SPFS applied all the applicable recognition and measurement requirements of AAS, except for the consolidation requirements in AASB 10. The Board decided to request comments on this approach through this ED.

Effective date

BC126 In considering an appropriate effective date, the Board considered available policies and precedent, including:

- (a) the amendments to the tax law requiring SGEs to lodge GPFS with the ATO were issued in December 2015, and required lodgement to the ATO for 'income years' commencing on or after 1 July 2016. However, the ATO provided transitional concessions in the first year, whereby it allowed entities with reporting periods ending on 30 June 2017 additional time to lodge those financial statements, with lodgement due by 31 March 2018. It also permitted foreign-controlled entities to lodge financial statements in accordance with another set of Generally Accepted Accounting Principles (GAAP) other than AAS (eg US GAAP);

- (b) the AASB issued the first principal version of AASB 1 in July 2004, prior to the effective date of full adoption of the Australian-equivalents to IFRS Standards of annual periods beginning on or after 1 January 2005. The FRC provided the AASB with the directive to adopt IFRS Standards in 2002. Given that all entities would have applied AASB 1 on Australia's transition to IFRS Standards, this length of time is arguably indicative of how much time might need to be provided for a transition from SPFS to GPFS; and
 - (c) the AASB *Policies and Processes* outlines in paragraph 32 that "when determining the effective date of Standards the AASB seeks to ensure that constituents have adequate time to prepare for their implementation. In normal circumstances the AASB will issue a Standard a significant time before its effective date, say, during the previous annual reporting period and generally permits entities to apply those requirements early should they wish to do so".
- BC127 The Board also noted that a timely effective date would be welcomed by users of financial statements, and may also be preferred by preparers. This is because:
- (a) the regulations in relation to the doubling of the thresholds used for determining what constitutes a large proprietary company are applicable to financial years beginning on or after 1 July 2019. The Board noted that the commentary contained in the Explanatory Statement to those regulations may be persuasive in an entity reconsidering its status as a non-reporting entity. As such, if entities were to reassess and determine that they were in fact a reporting entity, it would be preferable for the revised Tier 2 GPFS framework and the RCF to be applicable at the same time as for other publicly accountable for-profit private sector entities (annual periods beginning on or after 1 January 2020); and
 - (b) a large proportion of affected entities (76% - refer paragraph BC20) are already complying with the R&M requirements in AAS.
- BC128 As noted in the table in paragraph BC117, the Board also concluded that providing relief from restating comparative information in the year of transition would be particularly beneficial as it could allow for an earlier effective date. As such, with regard to the above considerations, the Board decided to propose an effective date of annual periods beginning on or after 1 July 2020. The Board noted this would effectively align with the effective date of the RCF, given most Australian for-profit private sector entities would have reporting dates of 30 June.
- BC129 Further, the Board noted the timeliness of completing this project, in order to provide an option for large proprietary companies to early adopt the RCF, applicable transitional relief and Tier 2 GPFS framework for periods beginning on or after 1 July 2019 (ie aligned with the doubling of the thresholds used for determining what constitutes a large proprietary company). As such, the Board intends to issue a final amending Standard by 30 June 2020.

Application of *The AASB's For-Profit Entity Standard-Setting Framework*

- BC130 In developing the proposals contained in this ED, the Board considered the principles in *The AASB's For-Profit Entity Standard-Setting Framework*, which outlines the matters the Board must consider when determining whether or not to make amendments to IFRS Standards or develop Australian-specific guidance.
- BC131 *The AASB's For-Profit Entity Standard-Setting Framework* states that, when developing accounting standards for non-publicly accountable for-profit entities, the AASB's objective is to use IFRS Standards and transaction neutrality as a starting point, with modifications where justified to address:
- (a) Australian-specific legislation, user needs, or public interest issues relevant to financial reporting or beyond financial reporting;
 - (b) issues specific to the (for-profit) public sector of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements;
 - (c) where the objectives and qualitative characteristics of financial reporting as set out in the existing Conceptual Framework would not be met; and/or
 - (d) undue cost or effort considerations.
- BC132 Consistent with this, the Board decided standard-setting activities as reflected in this ED were necessary after undertaking the following (as already noted throughout this ED):
- (a) extensive public consultation and outreach including ITC 39, research into the needs of financial statement users (eg public surveys and targeted outreach), feedback obtained from stakeholders (including users) who participated in roundtable events, along with other general and targeted outreach with stakeholders;

- (b) engaging with Treasury and assessing the impact of regulatory changes to large proprietary companies, including understanding the number of entities expected to be affected by the increase in the large proprietary company thresholds from this ED;
- (c) the preparation and review of various research reports, including Research Report No. 1, AASB Research Report No. 4 *Review of Adoption of International Financial Reporting Standards in Australia* (March 2017), AASB Research Report No. 7 and Research Report No. 12 to understand the current application of the reporting entity concept, as well as to understand the degree of non-compliance with the R&M requirements in AAS. The objective of these research activities was to better understand the cost implications of disallowing entities required to prepare financial statements that comply with AAS to prepare SPFS and require them to prepare GPFS instead;
- (d) considering whether it was necessary to provide transitional relief in addition to that currently available under AASB 1 and AASB 108 with the objective of minimising any undue costs in relation to both the transition from SPFS to GPFS and the associated disclosure requirements; and
- (e) a preliminary consideration of matters relevant to Regulation Impact Statement (RIS) requirements.⁴³

Amendments required to implement Phase 2

- BC133 As noted in paragraph BC53, in May 2019 the Board made AASB 2019-1 to implement Phase 1 of the Board's phased approach to implementing the IASB's RCF in Australia, limiting the application of the Board's *Conceptual Framework for Financial Reporting (Conceptual Framework)* to for-profit private sector entities with public accountability that are required by legislation to prepare financial statements that comply with AAS.
- BC134 In this ED, to facilitate the implementation of Phase 2, the following amendments are proposed:
- (a) the applicability of the *Conceptual Framework* is proposed to be extended so that it applies to:
 - (i) for profit-private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards (with the previous limitation to entities with public accountability removed);
 - (ii) other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards (and so excluding requirements to comply merely with 'accounting standards'), provided that the relevant document was created or amended on or after 1 July 2020; and
 - (iii) other for-profit entities (including for-profit public sector entities) that elect to prepare GPFS and elect to apply the *Conceptual Framework* and the consequential amendments to other pronouncements; and
 - (b) the existing *Conceptual Framework* and SAC 1 are also proposed to be amended so that they will continue not to apply to all for-profit entities that are applying the *Conceptual Framework*. Consequential amendments are made to the applicability of the reporting entity definition in AASB 1057, which is not relevant to entities applying the *Conceptual Framework*.
- BC135 Therefore, with these amendments, an entity that is required to apply the *Conceptual Framework* cannot identify as a non-reporting entity under SAC 1 or AASB 1057. As a consequence, the ability of such an entity to prepare SPFS is removed and the entity will be required to prepare GPFS that comply with AAS (or accounting standards under legislative requirements).
- BC136 The application paragraph of AASB 1057 is proposed to be extended to state that it will apply to for-profit private sector entities that are required by legislation to comply with either AAS or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to comply with AAS (provided that the relevant document was created or amended on or after 1 July 2020). The application paragraphs of the other Standards and Interpretations, as set out in AASB 1057, are extended similarly.
- BC137 The AusCF paragraphs in AAS that were introduced in AASB 2019-1 do not need to be amended in this ED. The definition of AusCF entities as NFP entities and for-profit entities that are not applying the *Conceptual Framework*, as introduced in AASB 2019-1, will continue to apply unchanged. The phase 2 amendments reduce the set of for-profit entities that are not applying the *Conceptual Framework*.

⁴³ A full assessment of the costs of transition from SPFS to Tier 2 GPFS, along with ongoing compliance costs resulting from the application of the proposals in this ED has not been undertaken at this time, as this assessment will depend on the final proposals, if any, resulting from this consultation.