

# **Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities**

Comments to the AASB by 11 September 2020



**Australian Government**

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**Australian Accounting  
Standards Board**

## Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 11 September 2020.

## 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](http://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:

E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)

Phone: (03) 9617 7600

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

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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

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

### Why we are making these proposals

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The AASB has limited the use of special purpose financial statements in the for-profit private sector to:

- (a) entities whose constituting document (or another document) – created or last amended before 1 July 2021 – requires them to prepare financial statements that comply with Australian Accounting Standards; and
- (b) entities with a legislative requirement to prepare financial statements that comply with Australian Accounting Standards or accounting standards – in respect of financial statements for periods beginning before 1 July 2021, if they elect not to early adopt the requirements in AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Accordingly, there is likely to be a significant number of entities in category (a) above that will continue for a long period of time to be able to prepare special purpose financial statements and state that their special purpose financial statements have been prepared in compliance with Australian Accounting Standards. To meet users' stated needs to clearly understand the recognition and measurement basis of preparation of special purpose financial statements, where the entity is required by legislation or a constituting or other document to comply with Australian Accounting Standards, additional prescribed disclosures are necessary.

AASB Research Report No. 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019) clearly identified that disclosures regarding the basis upon which the special purpose financial statements have been prepared, including the extent of compliance or otherwise with recognition and measurement requirements in Australian Accounting Standards, were not sufficient. This was the case even when an entity is required to comply with 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*.

The majority of for-profit private sector entities that will continue to be able to prepare special purpose financial statements that state compliance with Australian Accounting Standards currently have no prescribed minimum disclosure requirements. This is because the set of entities preparing special purpose financial statements to which Australian Accounting Standards presently apply mandatorily is limited to those entities required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*.

Without a clear explanation of what compliance with Australian Accounting Standards means in the various scenarios where the preparation of financial statements that comply with Australian Accounting Standards is possible (including Tier 1, Tier 2<sup>1</sup> and special purpose financial statements), there is a risk of users being misled, particularly where special purpose financial statements are prepared and claim compliance with Australian Accounting Standards.

The disclosures proposed in this Exposure Draft will enable users to clearly understand (1) the basis of preparation of special purpose financial statements where the entity is required by legislation or a constituting or other document to comply with Australian Accounting Standards, and (2) the extent of compliance or otherwise of the entity's financial

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1 Per AASB 1053 paragraph 7, "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."

statements with Australian Accounting Standards. However, these proposals do not prescribe recognition and measurement requirements for special purpose financial statements.

## What we are proposing

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This Exposure Draft proposes amendments to AASB 1057 *Application of Australian Accounting Standards* (July 2015) that would require the following for-profit private sector entities, when preparing special purpose financial statements, to comply with certain disclosure requirements proposed in this Exposure Draft to be added to AASB 1054:

- (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 – the ability of these entities to prepare special purpose financial statements is temporary as these entities will be required to prepare general purpose financial statements for annual periods beginning on or after 1 July 2021 in accordance with AASB 2020-2; 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 – the ability of these entities to prepare special purpose financial statements is limited to circumstances where the constituting or other document requiring compliance with Australian Accounting Standards was created or last amended before 1 July 2021.

The disclosure requirements proposed to be added to AASB 1054 would require the above entities that prepare special purpose financial statements to:

- (a) disclose the basis on which the decision to prepare special purpose financial statements was made;
- (b) disclose information about the material accounting policies applied in the special purpose financial statements, including information about changes in those policies;
- (c) where the entity has interests in other entities – disclose whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it would be required to disclose that fact, and the reasons why;
- (d) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), disclose an indication of how it does not comply; and
- (e) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).

## Application date

It is proposed that the amendments would apply to annual periods ending on or after 30 June 2021, with earlier application permitted.

## Who these proposals apply to

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### Summary of scope

The proposals in this Exposure Draft apply only to for-profit private sector entities that are required by legislation to prepare financial statements that comply with Australian Accounting Standards or accounting standards, or by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, and that are still permitted to prepare special purpose financial statements.

The following table sets out examples of the types of entities that generally would be within or outside the scope of the requirements in paragraph 9C proposed to be added to AASB 1054.

#	Entity	In or out of the scope of these proposals
<b>1</b>	<b>For-profit private sector entities preparing special purpose financial statements</b>	
	For-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards preparing special purpose financial statements – relevant only for annual periods ending on or after 30 June 2021 that begin before 1 July 2021 <sup>2</sup> (for example, the 2020/21 financial year and the 2021 calendar year)	In scope
	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 preparing special purpose financial statements – provided that the relevant document was created or last amended before 1 July 2021	In scope
	For-profit private sector entities that are required by legislation to prepare financial statements, where there is no legislative reference requiring compliance with Australian Accounting Standards or accounting standards (for example, small co-operatives)	Not in scope
	For-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with generally accepted accounting principles or practices	Not in scope
<b>2</b>	<b>For-profit public sector entities preparing special purpose financial statements</b>	Not in scope
<b>3</b>	<b>Not-for-profit private sector entities preparing special purpose financial statements</b>	Not in scope However, similar requirements have been included in AASB 1054 for these entities through AASB 2019-4 <i>Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements</i>

## What happens next

The AASB will consider feedback on this Exposure Draft 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 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 Exposure Draft by 11 September 2020. 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

<sup>2</sup> The combination of dates is due to the proposed application date of these requirements (annual periods ending on or after 30 June 2021) and the application date of AASB 2020-2 (annual periods beginning on or after 1 July 2021), which means that these entities can prepare special purpose financial statements only for annual periods beginning before 1 July 2021.

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

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The AASB would particularly value comments on the following:

- 1 Do you agree that an amendment to Australian Accounting Standards to require entities to disclose information about their special purpose financial statements – including the material accounting policies applied in the special purpose financial statements, changes in those policies, and whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards – is needed to provide more transparency to users of special purpose financial statements and improve the comparability of special purpose financial statements? If not, please provide your reasons.
- 2 Do you agree that the proposed new disclosures should apply only to those entities preparing special purpose financial statements that are:
  - (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; 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.If not, please provide your reasons.
- 3 Do you agree with the proposed amendments to AASB 1054 requiring disclosure of:
  - (a) the basis for the preparation of the special purpose financial statements (see proposed new paragraph 9C(a));
  - (b) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies (see proposed new paragraphs 9C(b) and 9C(c));
  - (c) information about the consolidation or non-consolidation of subsidiaries and accounting for associates and joint ventures (see proposed new paragraph 9C(d));
  - (d) an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (including the requirement to disclose an indication of how they do not comply) (see proposed new paragraph 9C(e)); and
  - (e) an explicit statement as to whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see proposed new paragraph 9C(f))?If you disagree with any aspect of the proposed disclosures, please provide your reasons.
- 4 The proposed Standard includes implementation guidance and illustrative examples illustrating the application of the proposed disclosure requirements. Do you agree it provides appropriate illustration of the application of the disclosure requirements? If not, please provide your reasons.
- 5 Do you agree with the proposed effective date of annual periods ending on or after 30 June 2021 (with early adoption permitted)? If not, please explain why.
- 6 Do you agree that an entity that has no subsidiaries, investments in associates or investments in joint ventures should not be required to make an explicit statement to this effect? If not, please provide your reasons.
- 7 Do you have any other comments on the proposals?

## General matters for comment

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

- 8 Whether *The AASB's For-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?
- 9 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 10 Whether the proposals create any auditing or assurance challenges?

- 11 Whether, overall, the proposals would result in special purpose financial statements that would be more useful to users?
- 12 Whether the proposals are in the best interests of the Australian economy?
- 13 Unless already provided in response to specific 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

**[DRAFT] ACCOUNTING STANDARD  
AASB 2020-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – DISCLOSURES IN SPECIAL  
PURPOSE FINANCIAL STATEMENTS OF CERTAIN FOR-PROFIT PRIVATE SECTOR ENTITIES**

	<i>from paragraph</i>
<b>OBJECTIVE</b>	<b>1</b>
<b>APPLICATION</b>	<b>3</b>
<b>AMENDMENTS TO AASB 1054</b>	<b>6</b>
<b>AMENDMENTS TO AASB 1057</b>	<b>8</b>
<b>COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT</b>	<b>10</b>

**[DRAFT] IMPLEMENTATION GUIDANCE AND ILLUSTRATIVE EXAMPLES FOR  
FOR-PROFIT PRIVATE SECTOR ENTITIES**

**[DRAFT] BASIS FOR CONCLUSIONS**

[Draft] Australian Accounting Standard AASB 2020-X Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities is set out in paragraphs 1 – 10. All the paragraphs have equal authority.



## Preface

### Standards amended by AASB 2020-X

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This [draft] Standard makes amendments to AASB 1054 *Australian Additional Disclosures* (May 2011) and AASB 1057 *Application of Australian Accounting Standards* (July 2015).

### Main features of this Standard

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#### Main requirements

This [draft] Standard amends AASB 1054 and AASB 1057 to require the following for-profit private sector entities, when preparing special purpose financial statements, to comply with certain disclosure requirements added to AASB 1054 by this [draft] Standard:

- (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; 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.

The disclosure requirements added to AASB 1054 by this [draft] Standard require the above entities that prepare special purpose financial statements to:

- (a) disclose the basis on which the decision to prepare special purpose financial statements was made;
- (b) disclose information about the material accounting policies applied in the special purpose financial statements, including information about changes in those policies;
- (c) where the entity has interests in other entities – disclose whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, the entity discloses that fact and the reasons why;
- (d) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) – disclose an indication of how it does not comply; and
- (e) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).

#### Application date

This [draft] Standard applies to annual periods ending on or after ... [30 June 2021], with earlier adoption permitted.

## [Draft] Accounting Standard AASB 2020-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2020-X *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall  
Chair – AASB

## [Draft] Accounting Standard AASB 2020-X *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*

### Objective

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- 1 This Standard amends AASB 1054 *Australian Additional Disclosures* (May 2011) and AASB 1057 *Application of Australian Accounting Standards* (July 2015) to require certain for-profit private sector entities to apply certain disclosure requirements of AASB 1054 when preparing special purpose financial statements.
- 2 This Standard amends AASB 1054 to add requirements for those same certain for-profit private sector entities that are preparing special purpose financial statements to disclose information about those financial statements, including information that enables users of the financial statements to understand the material accounting policies applied in the financial statements, changes in those policies and whether or not the policies comply with all the recognition and measurement requirements in Australian Accounting Standards.

### Application

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- 3 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.
- 4 This Standard applies to annual periods ending on or after ... [30 June 2021]. This Standard may be applied to annual periods ending before ... [30 June 2021]. When an entity applies this Standard to such an annual period, it shall disclose that fact.
- 5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to AASB 1054 and AASB 1057, 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.

### Amendments to AASB 1054 *Australian Additional Disclosures*

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- 6 Paragraphs 2, 4A, 9C and 9D are added as follows:
  - 2 The following table identifies the disclosure requirements that, in accordance with this Standard, apply to each type of entity to which this Standard applies:

Type of entity to which the paragraph is applicable	Subject of paragraphs	Para no.
<i>Entities preparing general purpose financial statements</i>		
For-profit entities and not-for-profit entities	Compliance with Australian Accounting Standards	7, RDR7.1
	Reporting framework	8
	General purpose or special purpose financial statements	9

Type of entity to which the paragraph is applicable	Subject of paragraphs	Para no.
	Audit fees	10, 11
	Imputation credits	12-15
	Cash flow reconciliation	16
	IFRS Standard not yet issued in Australia	17
<b><i>Entities preparing special purpose financial statements</i></b>		
For-profit private sector entities required: - to prepare financial reports in accordance with Part 2M.3 of the Corporations Act; or - by other legislation to comply with this Standard	Compliance with Australian Accounting Standards	7
	Reporting framework	8
	General purpose or special purpose financial statements	9, 9C, 9D
	Audit fees	10, 11
	Imputation credits	12-15
	Cash flow reconciliation	16
	IFRS Standard not yet issued in Australia	17
For-profit private sector entities required by legislation (other than Part 2M.3 of the Corporations Act) to comply with Australian Accounting Standards or accounting standards (without specific reference to this Standard)	General purpose or special purpose financial statements	9C, 9D
For-profit private sector entities required only by their constituting document or another document (created or last amended before 1 July 2021) to prepare financial statements that comply with Australian Accounting Standards	General purpose or special purpose financial statements	9C, 9D
Not-for-profit private sector entities required to comply with this Standard	Compliance with Australian Accounting Standards	7
	Reporting framework	8
	General purpose or special purpose financial statements	9-9B
	Audit fees	10, 11
	Imputation credits	12-15
	Cash flow reconciliation	16
	IFRS Standard not yet issued in Australia	17

4A Of the disclosure requirements in this Standard from paragraph 7 onwards, the following types of entities are required to apply only paragraph 9C (and paragraph 9D is also relevant):

- (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 and that are preparing special purpose financial statements, other than for-profit entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act or for-profit entities that are required by other legislation to comply with this Standard when preparing special purpose financial statements; and
- (b) 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 last amended before 1 July 2021.

## Information about special purpose financial statements

...

- 9C A for-profit private sector entity that prepares special purpose financial statements shall:
- (a) disclose the basis on which the decision to prepare special purpose financial statements was made;
  - (b) disclose the following about the material accounting policies applied in the special purpose financial statements, if not already required by another Australian Accounting Standard:
    - (i) the measurement basis (or bases) used in preparing the special purpose financial statements; and
    - (ii) the other accounting policies used that are relevant to an understanding of the special purpose financial statements;
  - (c) when a change in a material accounting policy has an effect on the current period or any prior period, disclose the following, if not already required by another Australian Accounting Standard:
    - (i) the nature of the change in accounting policy;
    - (ii) the reasons why applying the new accounting policy provides reliable and more relevant information;
    - (iii) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:
      - (A) for the current period;
      - (B) for each prior period presented; and
      - (C) in the aggregate for periods before those presented; and
    - (iv) an explanation if it is impracticable to determine the amounts to be disclosed under paragraph (iii).
- Financial statements of subsequent periods need not repeat these disclosures;
- (d) where the entity has interests in other entities – disclose whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact, and the reasons why;
  - (e) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), disclose an indication of how it does not comply; and
  - (f) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).
- 9D *Implementation guidance and illustrative examples for for-profit private sector entities* accompanies this Standard. It illustrates the application of the requirements in paragraph 9C and their relationship to the disclosure of an entity's material accounting policies.

7 *Implementation guidance and illustrative examples for for-profit private sector entities* is attached to accompany AASB 1054 as set out on pages 15 to 20.

## Amendments to AASB 1057 *Application of Australian Accounting Standards*

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8 For annual periods ending on or after 30 June 2021 that begin before 1 July 2021, paragraphs 2 and 7 are amended (new text is underlined, deleted text is struck through) and paragraph 18A is added as follows:

- 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.

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

...

- 7 ~~AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and 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 comply with Australian Accounting Standards.

...

- 18A AASB 1054 *Australian Additional Disclosures* 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) 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) 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.

- 9 For annual periods beginning on or after 1 July 2021, paragraphs 2 and 7 are amended (new text is underlined, deleted text is struck through) and paragraph 18A is added as follows:

- 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 not-for-profit reporting entity;
- (c) each entity that elects to prepare 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*;

- (e) 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
- (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 2021.~~

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

...

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Except as specified in paragraph 20C, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and AASB 1048 *Interpretation of Standards* ~~and AASB 1054 *Australian Additional Disclosures*~~ apply to:

- (a) each not-for-profit 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 not-for-profit entity that is a reporting entity;
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;
- (d) 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) 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 2021.

...

18A AASB 1054 *Australian Additional Disclosures* applies to:

- (a) each not-for-profit 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 not-for-profit entity that is a reporting entity;
- (c) each entity that elects to prepare financial statements that are, or are held out to be, general purpose financial statements;
- (d) 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) 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.

## Commencement of the legislative instrument

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10 For legal purposes, this legislative instrument commences on ... [date].

## Implementation guidance and illustrative examples for for-profit private sector entities

The following implementation guidance and illustrative examples accompany, but are not part of, AASB 1054 Australian Additional Disclosures. They illustrate aspects of AASB 1054 but are not intended to provide interpretative guidance.

IG15 The AASB has prepared this guidance and examples to explain and illustrate the application of the requirements in paragraph 9C of this Standard.

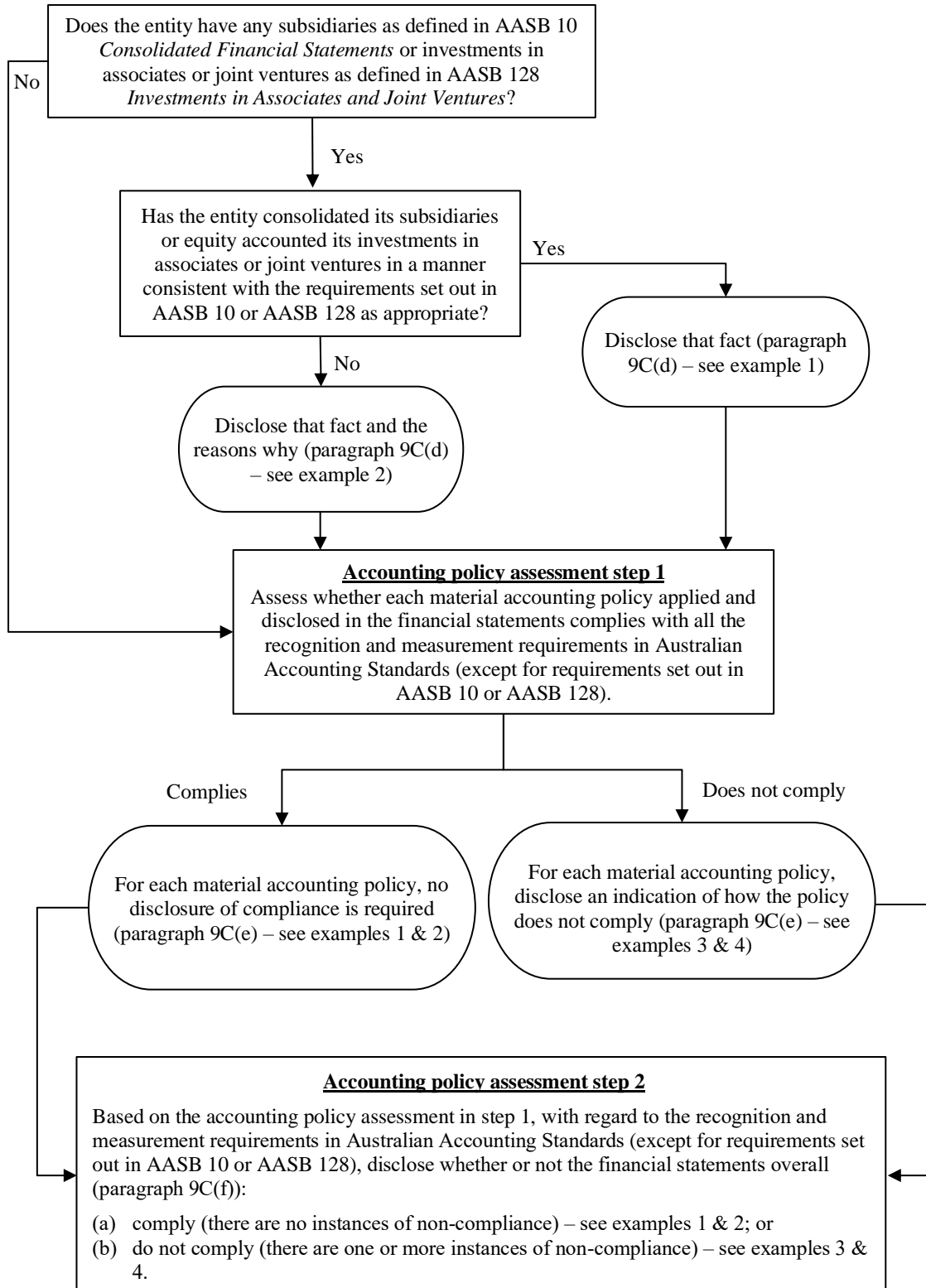
IG16 The table below has been provided for ease of reference to illustrate the types of entities that would be generally within the scope of the requirements in paragraph 9C of this Standard.

#	Entity	In scope/out of scope
<b>1</b>	<b>For-profit private sector entities preparing special purpose financial statements</b>	
	For-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards preparing special purpose financial statements – relevant only for annual periods ending on or after 30 June 2021 that begin before 1 July 2021 (for example, the 2020/21 financial year and the 2021 calendar year)	In scope
	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 preparing special purpose financial statements – provided that the relevant document was created or last amended before 1 July 2021	In scope
	For-profit private sector entities that are required by legislation to prepare financial statements, where there is no legislative reference requiring compliance with Australian Accounting Standards or accounting standards	Not in scope
	For-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with generally accepted accounting principles or practices	Not in scope
<b>2</b>	<b>For-profit public sector entities preparing special purpose financial statements</b>	Not in scope
<b>3</b>	<b>Not-for-profit private sector entities preparing special purpose financial statements</b>	Not in scope – see paragraph IG2

IG17 The following flowchart summarises some of the key decisions in determining how to apply the disclosure requirements in paragraphs 9C(d)-(f) of this Standard in relation to special purpose financial statements.

IG18 In disclosing the information required by paragraphs 9C(d)-(f) of this Standard, entities are not expected to provide quantitative information, or reconciliations, where accounting policies do not comply with all the recognition and measurement requirements in Australian Accounting Standards.

**Chart 2 – For-profit entities preparing special purpose financial statements (paragraphs 9C(d)-(f))**





## **Disclose the basis on which the decision to prepare special purpose financial statements was made**

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IG19 Paragraph 9C(a) requires an entity to disclose the reasons why the preparation of special purpose financial statements was considered appropriate. It is not sufficient for the entity to merely disclose that it is ‘not a reporting entity’; the entity must articulate the reasons why it concluded general purpose financial statements were not required. For example, the reason could be that in the opinion of the directors all financial statement users are in a position to require the entity to prepare reports tailored to their particular information needs.

## **Disclosure of accounting policies**

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IG20 For-profit private sector entities within the scope of this Standard that are preparing special purpose financial statements are required to provide sufficient information to enable users of those special purpose financial statements to obtain an understanding of the material accounting policies applied in the preparation of the special purpose financial statements, including changes in those policies.

IG21 The disclosure of this information may be required by another Australian Accounting Standard, such as AASB 101 *Presentation of Financial Statements* or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Where this is the case, the entity also complies with the requirements of the other Australian Accounting Standard.

## **Accounting policy assessment step 1: Compliance at the individual accounting policy level**

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IG22 Paragraph 9C(e) of this Standard requires an entity, for each material accounting policy applied and disclosed in the financial statements, to first assess whether that policy complies with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) or does not comply.

IG23 Using those assessments:

- (a) an entity discloses for those policies not complying with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), an indication of how it does not comply; or
- (b) if the material accounting policies applied and disclosed in the financial statements comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), no additional disclosures are required.

IG24 Where an entity’s accounting policies do not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), the presentation of the disclosure providing an indication of that non-compliance may differ depending on the extent of non-compliance. Entities may choose to provide disclosures for non-compliant policies in one place or placed with each accounting policy disclosed in the financial statements, as appropriate. For example:

- (a) an entity may choose to disclose which Australian Accounting Standards are not complied with and provide details of the non-compliance in one place – for example, within the basis of preparation note – where the instances of non-compliance are not extensive (see Example 3 below); or
- (b) where the instances of non-compliance are extensive, details of the non-compliance may be provided within the relevant accounting policy note (see Example 4 below).

## **Accounting policy assessment step 2: Overall compliance**

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IG25 Based on the assessment in paragraph 9C(e), paragraph 9C(f) then requires an entity to disclose whether or not overall the material accounting policies applied and disclosed in the financial statements comply (that is there are no instances of non-compliance) (see Examples 1 and 2 below) or do not comply (there are one or more instances of non-compliance) (see Examples 3 and 4 below) with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).

IG26 Based on the AASB’s research, some of the most frequent examples of non-compliance with recognition and measurement requirements in Australian Accounting Standards include:

- (a) in accounting for income taxes, deferred tax is not recognised, which does not comply with AASB 112 *Income Taxes*;
- (b) in accounting for property, plant and equipment, assets were not depreciated based on their useful lives, which does not comply with AASB 116 *Property, Plant and Equipment*;
- (c) in accounting for impairments, the recoverable amount for impairment testing was calculated on an undiscounted basis, which does not comply with AASB 136 *Impairment of Assets*;
- (d) in accounting for leases, certain leases that would previously have been considered operating leases in accordance with AASB 117 *Leases*<sup>1</sup> have not been recognised in the statement of financial position, which does not comply with AASB 16 *Leases*; and
- (e) in accounting for revenue, revenue is recognised based on the transfer of risks and rewards or the percentage of completion method in accordance with AASB 118 *Revenue*<sup>2</sup>, which does not comply with AASB 15 *Revenue from Contracts with Customers*.

## **Application of the consolidation and equity accounting requirements**

IG27 In relation to paragraph 9C(d) of this Standard, information about the accounting for subsidiaries and investments in associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements.

IG28 Exemptions from consolidation of subsidiaries are provided in AASB 10, paragraphs 4(a)-Aus4.2, including when the entity is a wholly-owned subsidiary, its debt or equity instruments are not traded in or to be issued in a public market and its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards. Those charged with governance preparing special purpose financial statements might have other reasons for non-consolidation of some or all of an entity's subsidiaries, and paragraph 9C(d) requires these reasons to be disclosed (see Example 2 below).

IG29 The following illustrative examples are provided:

<b>Scenario/Example</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Reporting Framework</b>	<i>Corporations Act 2001</i>	✓			
	<b>Trust Deed</b>			✓	✓
	<b>Other document</b>		✓		
<b>Subsidiaries</b>	<b>Yes</b>	✓	✓		
	<b>No</b>			✓	✓
<b>Consolidated</b>	<b>Yes</b>	✓		n/a	n/a
	<b>No</b>		✓		
<b>Associates / Joint Ventures</b>	<b>Yes</b>	✓			
	<b>No</b>		✓	✓	✓
<b>Equity accounted</b>	<b>Yes</b>	✓			
	<b>No</b>		n/a	n/a	n/a
<b>Material accounting policies comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)</b>	<b>Yes</b>	✓	✓		
	<b>No</b>			✓	✓
<b>Financial statements overall comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)</b>	<b>Yes</b>	✓	✓		
	<b>No</b>			✓	✓

<sup>1</sup> AASB 117 was superseded by AASB 16 for periods beginning on or after 1 January 2019.

<sup>2</sup> AASB 118 was superseded by AASB 15 for for-profit entities for periods beginning on or after 1 January 2018.

IG30 There are additional illustrative examples in paragraphs IG13 and IG14 of this Standard that may be useful, notwithstanding that they have been prepared for not-for-profit private sector entities.

IG31 The following examples illustrate how an entity might apply some of the disclosure requirements in paragraph 9C of this Standard, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying the Standard.

#	Example	Illustrative disclosure
1	<p><i>Compliance with all recognition and measurement requirements in Australian Accounting Standards, including AASB 10 and AASB 128</i></p> <p>XYZ Pty Ltd, a for-profit parent, has prepared special purpose financial statements for 2020/21 as it is not required by AASB 2020-2 <i>Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities</i> to prepare general purpose financial statements until its 2021/22 financial year. The special purpose financial statements:</p> <ul style="list-style-type: none"> <li>consolidate all its subsidiaries in a manner consistent with the requirements set out in AASB 10;</li> <li>equity account all its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128; and</li> <li>apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards.</li> </ul>	<p>XYZ Pty Ltd is a small foreign-controlled for-profit entity that has prepared special purpose financial statements for the 2020/21 financial year. The Directors are of the opinion that users may obtain the financial information they require upon request. These special purpose financial statements have therefore been prepared in order to meet the requirements of the [<i>Corporations Act 2001</i> / insert details of the for-profit reporting framework under which the financial statements are prepared].</p> <p>XYZ Pty Ltd has consolidated all its subsidiaries consistent with the requirements set out in AASB 10 <i>Consolidated Financial Statements</i> and equity accounted for its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128 <i>Investments in Associates and Joint Ventures</i>.</p> <p>These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p>
2	<p><i>Compliance with all recognition and measurement requirements in Australian Accounting Standards, excluding AASB 10 and AASB 128</i></p> <p>MNO Pty Ltd, a small for-profit proprietary company, prepares separate special purpose financial statements in order to meet the requirements of its financing agreement. The separate special purpose financial statements apply material accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. The separate financial statements do not consolidate MNO Pty Ltd's subsidiaries.</p>	<p>These special purpose financial statements have been prepared to satisfy the Directors' reporting requirements under the financing agreement with Bank X. In the opinion of the Directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. MNO Pty Ltd is a for-profit entity.</p> <p>Consolidated financial statements have not been prepared for MNO Pty Ltd and its subsidiaries as the Directors have decided not to comply with AASB 10 <i>Consolidated Financial Statements</i> – the Directors would provide consolidated information to users upon request.</p> <p>MNO Pty Ltd's separate special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.</p>
3	<p><i>Known non-compliance with recognition and measurement requirements in Australian Accounting Standards that is not extensive</i></p> <p>ABC Trading Trust, a for-profit entity, determined that it does not have any subsidiaries, associates or joint ventures (and therefore AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are not extensive.</p>	<p>ABC Trading Trust, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the Trustees, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Trustee's reporting requirements under the Trust Deed. These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>The recognition and measurement requirements that have not been complied with are those specified in AASB 116 <i>Property, Plant and Equipment</i> as, in accounting for property, plant and equipment, ABC Trading Trust has [calculated</p>

#	Example	Illustrative disclosure
		depreciation on the basis of the useful lives determined by the Australian Taxation Office for income tax purposes / insert further details, including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with].
4	<p><i>Extensive known non-compliance with the recognition and measurement requirements in Australian Accounting Standards</i></p> <p>HIJ Public Trading Trust, a for-profit entity, does not have any subsidiaries, associates or joint ventures (and therefore AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. Although the differences have not been quantified, they are extensive, and an indication of the differences are presented with the appropriate note disclosing the accounting policy.</p>	<p>HIJ Public Trading Trust, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the Trustees, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Trustee's reporting requirements under the Trust Deed.</p> <p>These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.</p> <p>[The material accounting policies adopted in the special purpose financial statements are set out in notes Q-Z and indicate how the recognition and measurement requirements in Australian Accounting Standards have not been complied with.</p> <p>...</p> <p>Note X: Impairment</p> <p>...</p> <p>Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined on an undiscounted basis as the higher of an asset's fair value less costs of disposal and value in use. This does not comply with AASB 136 <i>Impairment of Assets</i>.</p> <p>Note Y: Income Tax</p> <p>...</p> <p>The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate. This amount is not adjusted for changes in deferred tax assets and liabilities as HIJ Public Trading Trust does not recognise deferred tax balances. This does not comply with AASB 112 <i>Income Taxes</i>.</p> <p>...]</p>

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, AASB 2020-X Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.*

### Introduction

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BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Exposure Draft. It sets out the reasons why the Board developed the Exposure Draft, the approach taken to developing the Exposure Draft and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

### Reasons for developing the Exposure Draft

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BC2 In order to address the issues associated with special purpose financial statements reporting in the for-profit private sector, the Board undertook a project proposing to remove the ability for certain for-profit private sector entities to prepare special purpose financial statements. This project resulted in the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (March 2020). AASB 2020-2 makes amendments to Australian Accounting Standards to remove the ‘reporting entity’ concept for those entities required by:

- (a) legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; or
- (b) their constituting document (or another document) to prepare financial statements that comply with Australian Accounting Standards, provided the relevant document was created or amended on or after 1 July 2021.

BC3 AASB 2020-2 will not entirely resolve the problems associated with special purpose financial statements where a for-profit entity is required to prepare financial statements that comply with Australian Accounting Standards. This is because it contains an exemption that allows 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 to continue preparing special purpose financial statements provided that the relevant document was created or last amended before 1 July 2021.

BC4 The continued preparation of special purpose financial statements that state they have been prepared in compliance with Australian Accounting Standards, either for the foreseeable future or temporarily where an entity will be required to transition to general purpose financial statements in accordance with AASB 2020-2, was of concern to the Board. The Board noted users’ clearly stated views on the importance of understanding the recognition and measurement basis of preparation, and the findings of AASB Research Report No. 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019), which indicated the current deficiencies in clearly reporting the basis of preparation in special purpose financial statements (see also paragraphs BC21 and BC22 for AASB 2020-2).

BC5 The Board therefore decided it was necessary to reconsider the proposals in Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (July 2019). ED 293 proposed requiring certain for-profit private sector entities to disclose information in their special purpose financial statements that would allow users to understand the extent of compliance or otherwise of the entity’s accounting policies with the recognition and measurement requirements in Australian Accounting Standards.

### Exposure Draft ED 293

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BC6 The disclosure requirements proposed in ED 293 were to be applied to certain for-profit and not-for-profit entities, and were only intended as an interim measure while the Board continued with its broader project proposing to remove the ability for certain entities to prepare special purpose financial statements when they are required to comply with Australian Accounting Standards.

BC7 The feedback received on ED 293 indicated that the majority of respondents agreed that the proposals set out in ED 293 would increase the transparency and comparability of special purpose financial statements. However, respondents were particularly concerned about the costs of the proposals exceeding any benefits for

for-profit private sector entities, given the short-term nature of the proposals for these entities. This is because the broader project proposing to remove the ability for certain for-profit private sector entities to prepare special purpose financial statements when they are required to comply with Australian Accounting Standards was expected to be completed by 30 June 2020.

- BC8 After considering this feedback, the Board decided that the proposals in ED 293 would apply only to not-for-profit private sector entities at that time and issued *AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* (November 2019).

## Significant issues

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- BC9 The significant issues considered by the Board in developing this Exposure Draft are addressed below.

### Scope

- BC10 When considering which for-profit private sector entities should be required to make the proposed disclosures, the Board considered whether the disclosures should be required by:
- (a) only those entities preparing special purpose financial statements that are directly subject to AASB 1054 *Australian Additional Disclosures* as proposed in ED 293; or
  - (b) those 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 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 last amended before 1 July 2021; or
  - (c) those entities referred to in option (b), with a threshold to limit the requirements to those entities that would meet the requirements to be considered a large proprietary company under the *Corporations Act 2001*; or
  - (d) those entities referred to in option (b), where their special purpose financial statements state they have been prepared in compliance with Australian Accounting Standards.
- BC11 The Board decided option (b) was the most appropriate, noting that:
- (a) option (a) would not achieve the objective of the proposed amendments as those entities with a non-legislative requirement to prepare financial statements that comply with Australian Accounting Standards would not be within this scope; and
  - (b) options (c) and (d) were not the most appropriate alternatives as they would be complex to apply and would also result in exemptions for certain entities which are already subject to exemptions.
- BC12 While the Board does not expect the proposed disclosures to be onerous, it acknowledged that option (b) in paragraph BC10 would result in a number of entities becoming subject to AASB 1054 for the first time. For this reason, this Exposure Draft proposes limiting the application of the existing disclosure requirements in AASB 1054. That is, where the following entities are preparing special purpose financial statements, they would only be required to comply with the proposed paragraphs 9C and 9D of AASB 1054:
- (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, other than for-profit entities that are required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act* or for-profit entities that are required by other legislation to comply with this Standard when preparing special purpose financial statements; and
  - (b) 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 last amended before 1 July 2021.
- BC13 This Exposure Draft proposes specific amendments to paragraph 2 of AASB 1057 *Application of Australian Accounting Standards* to extend the set of entities to which AASB 1057 applies. This is necessary in order to extend the set of entities to which AASB 1054 applies and give effect to option (b) in paragraph BC10. The amendments proposed in this Exposure Draft do not extend the application of any other Australian Accounting Standards.
- BC14 It is also necessary to propose two sets of amendments to AASB 1057 – one set that applies for annual periods ending on or after 30 June 2021 that begin before 1 July 2021, and a second set that applies for annual periods

beginning on or after 1 July 2021. This is due to amendments made to AASB 1057 (including paragraphs 2 and 7) through AASB 2020-2, which has an effective date of annual periods beginning on or after 1 July 2021.

## **Disclosure of the basis on which the decision to prepare special purpose financial statements was made**

- BC15 When drafting the illustrative examples to accompany this Exposure Draft, the Board did not use the phrase ‘not a reporting entity’ to explain why the entity had prepared special purpose financial statements. The Board considered that entities need to more clearly articulate the reasons why they prepare special purpose financial statements, following the issue of AASB 2020-2, which further limits the application of the reporting entity concept for for-profit private sector entities. Reasons why special purpose financial statements have been prepared may include users being in a position to command the information they require.

## **Disclosure of accounting policies**

- BC16 The Board noted that many of the entities within the scope of the proposed amendments do not currently have a requirement to disclose information about the accounting policies applied in the financial statements. Without this, information about the extent of the entity’s compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards may be incomplete. Therefore, the Board decided to include a requirement for entities to disclose information about the material accounting policies applied in the special purpose financial statements, including the measurement basis (or bases) used and information about changes in those accounting policies, such as the nature of the change and the reasons why the change was made. Entities are required to comply with these disclosure requirements unless they are already required to disclose this information by another Australian Accounting Standard. The Board noted that entities required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act or Subdivision 60-C of the *Australian Charities and Not-for-profits Commission Act 2012* are required to comply with 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, even in preparing special purpose financial statements. While the disclosures proposed in this Exposure Draft would apply to special purpose financial statements prepared for annual periods ending on or after 30 June 2021, entities required by the Corporations Act to prepare financial reports are only permitted to prepare special purpose financial statements for annual periods that begin before 1 July 2021. For later periods, such entities are required by AASB 2020-2 to prepare general purpose financial statements.
- BC17 The Board considered expanding the scope of AASB 101, AASB 107, AASB 108 and AASB 1048 consistent with the scope of AASB 1054, but decided not to do so. This was because, while the Board saw merit in this approach, requiring all entities within the scope of the proposed amendments to AASB 1054 to comply with all the requirements contained in those Standards was considered too onerous.
- BC18 The Board also noted that if the approach in paragraph BC17 was adopted, as those Standards contain certain recognition and measurement requirements (such as accrual accounting and applying the going concern basis of preparation), this would then impose a requirement on all entities within the scope of the proposed amendments to adopt minimum recognition and measurement requirements. The Board acknowledged that setting minimum recognition and measurement requirements in special purpose financial statements is beyond the objective of this proposed amendment.

## **Disclosures regarding compliance with all the recognition and measurement requirements in Australian Accounting Standards**

- BC19 Both *The AASB’s For-Profit Entity Standard-Setting Framework* (May 2018) and *The AASB’s Not-for-Profit Entity Standard-Setting Framework* (May 2018) are predicated on the assumption of transaction neutrality, that is, like transactions and events should be accounted for in a like manner by all types of entities, unless there is a justifiable reason not to do so.
- BC20 The Board considered whether it was appropriate to propose that for-profit private sector entities within the scope of this Exposure Draft should make the same disclosures regarding their material accounting policies as those required by not-for-profit entities through AASB 2019-4 or whether for-profit private sector entities should make different disclosures. The Board noted that AASB 2019-4 contains options for a not-for-profit private sector entity to disclose in their special purpose financial statements that they have not assessed:
- (a) whether or not their interests in other entities give rise to interests in subsidiaries, associates or joint ventures for financial reporting purposes; and

- (b) whether or not their material accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards.
- BC21 The options to allow not-for-profit private sector entities to disclose that they had not assessed compliance with certain Australian Accounting Standards requirements were included in AASB 2019-4 because:
- (a) for some entities, particularly those in the not-for-profit private sector, disclosure of compliance might be unduly burdensome, such as where entities are not required to determine whether they have subsidiaries in accordance with AASB 10 to assess their financial reporting requirements (paragraph BC32 for AASB 2019-4); and
- (b) allowing an entity to make a no-assessment disclosure would require minimal additional effort, but would highlight potential instances of non-compliance with the recognition and measurement requirements in Australian Accounting Standards to users of the special purpose financial statements, as well as potential governance issues, and would also allow users of the special purpose financial statements to seek additional information if required (paragraph BC51 for AASB 2019-4).
- BC22 The Board acknowledged that those entities with a non-legislative requirement to prepare financial statements that comply with Australian Accounting Standards may benefit from being able to disclose that they have not assessed compliance with certain Australian Accounting Standards requirements, for reasons consistent with those noted in paragraph BC21. However, the Board took the view that for-profit entities would typically be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the recognition and measurement requirements in Australian Accounting Standards as part of their good governance approach. The Board also considered that while many of these entities may be small in size, they typically would not have overly complicated accounting requirements or transactions in this case, and this assessment would therefore not be complex.
- BC23 The Board also noted that for-profit private sector entities with a legislative requirement to prepare financial statements that comply with Australian Accounting Standards are generally reporting under the Corporations Act and in that case are subject to the guidance regarding compliance with recognition and measurement requirements in Australian Accounting Standards in ASIC Regulatory Guide RG85 *Reporting requirements for non-reporting entities*. While the Board recognised that not all of these entities are currently complying with the recognition and measurement requirements in Australian Accounting Standards, as noted in the findings of AASB Research Report No. 12, disclosing that they have ‘not assessed’ compliance would be inconsistent with the expectation that entities would have considered the guidance in ASIC RG85 when determining their accounting policies.
- BC24 The Board considered that the reasons outlined in paragraphs BC21-BC23 meet the requirements of the standard-setting frameworks as justifiable reasons why for-profit and not-for-profit private sector entities should have different disclosure requirements.
- BC25 The Board noted it did not expect these disclosures to be onerous and that entities still had the option of changing their constituting or other documents to avoid reference to Australian Accounting Standards should they wish to do so.

## Effective date

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- BC26 The Board confirmed that the amendments proposed in this Exposure Draft to AASB 1054 are needed to provide more transparency to the users of special purpose financial statements that state that they have been prepared in compliance with Australian Accounting Standards. The proposed amendments would also increase the comparability of the special purpose financial statements with other special purpose financial statements and general purpose financial statements that disclose the extent of compliance with Australian Accounting Standards.
- BC27 The Board confirmed that the proposed amendments would not require an entity to change its existing accounting policies and therefore the information required to be disclosed would be based on an entity’s existing accounting policies and financial reporting practices. Accordingly, it would not be necessary to provide an extended operative date.
- BC28 As such, the Board decided to propose that the amendments should be effective for annual periods ending on or after 30 June 2021. However, earlier voluntary disclosure would be allowed, and encouraged.