

Transition Between Tier 2 Frameworks for Not-for-Profit Entities

Comments to the AASB by 15 January 2021



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 15 January 2021.

Formal Submissions

Submissions should be lodged online via the “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:

E-mail: 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

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* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) depending on the reporting period, either of the following:
 - (i) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (for reporting periods beginning before 1 July 2021);
 - (ii) Tier 2: Australian Accounting Standards – Simplified Disclosures (for reporting periods beginning on or after 1 July 2021, with earlier adoption permitted).

Exposure Drafts

The publication of an Exposure Draft is part of the due process that 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

The AASB noted that not-for-profit (NFP) entities transitioning early from Tier 2 – Reduced Disclosure Requirements to Tier 2 – Simplified Disclosures, that is, for reporting periods beginning before 1 July 2021, are not able to access the same transitional relief that is available to for-profit private sector entities in those circumstances.

The transitional relief available to for-profit private sector entities, when they adopt Tier 2 – Simplified Disclosures early, provides relief from presenting comparative information in the notes to the financial statements if the entity did not previously disclose the comparable information in its most recent previous financial statements.

The AASB decided to issue an exposure draft proposing amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to make this relief available to NFP entities.

What we are proposing

This Exposure Draft proposes amendments to AASB 1060 to provide relief for NFP entities adopting AASB 1060 early from having to present comparative information in the notes to the financial statements where the entity did not previously disclose the comparable information in its most recent previous Tier 2 general purpose financial statements.

This proposed relief would be available for NFP entities transitioning from Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements to Tier 2: Australian Accounting Standards – Simplified Disclosures earlier than when mandatory application of AASB 1060 would be required.

Amendments are also proposed to AASB 1053 to highlight that the relief set out in Appendix E of AASB 1053 is available only to for-profit private sector entities.

Application date

It is proposed that the amendments would apply to annual periods beginning on or after 1 July 2021, with earlier application permitted provided that AASB 1060 is also applied to the same period.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 15 January 2021. 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 Do you agree that NFP entities adopting AASB 1060 early should be provided with relief from presenting comparative information in the notes if they did not previously disclose the comparable information in their most recent previous Tier 2 general purpose financial statements? If you disagree, please explain why.
- 2 As the proposed amendments would provide relief for NFP entities transitioning between the Tier 2 frameworks, do you agree that the amendments to give effect to the relief should be made in AASB 1060 (refer to paragraph BC5)? If you disagree, please explain why.

General matters for comment

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

- 3 Whether the *AASB Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?
- 4 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
- 5 Whether the proposals create any auditing or assurance challenges?
- 6 Whether, overall, the proposals would result in financial statements that would be useful to users?
- 7 Whether the proposals are in the best interests of the Australian economy?
- 8 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 2021-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – TRANSITION BETWEEN TIER 2 FRAMEWORKS FOR NOT-FOR-PROFIT ENTITIES

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[DRAFT] BASIS FOR CONCLUSIONS

<p>[Draft] Australian Accounting Standard AASB 2021-X <i>Amendments to Australian Accounting Standards – Transition Between Tier 2 Frameworks for Not-for-Profit Entities</i> is set out on pages 7 – 9. All the paragraphs have equal authority.</p>

Preface

Standards amended by AASB 2021-X

This [draft] Standard makes amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020).

Main features of this Standard

Main requirements

This [draft] Standard amends AASB 1060 to provide not-for-profit entities with relief from presenting comparative information in the notes to the financial statements where the entity did not previously disclose the comparable information in its most recent previous Tier 2 general purpose financial statements. This relief is available for not-for-profit entities transitioning from Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements to Tier 2: Australian Accounting Standards – Simplified Disclosures for a reporting period prior to their mandatory application of AASB 1060.

Amendments to AASB 1053 highlight that the relief set out in Appendix E of AASB 1053 is available only to for-profit private sector entities.

Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 July 2021]. Earlier application is permitted, provided that AASB 1060 is also applied to the same period.

[Draft] Accounting Standard AASB 2021-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2021-X *Amendments to Australian Accounting Standards – Transition Between Tier 2 Frameworks for Not-for-Profit Entities* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2021-X *Amendments to Australian Accounting Standards – Transition Between Tier 2 Frameworks for Not-for-Profit Entities*

Objective

This Standard amends AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010) and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020) principally to provide not-for-profit entities with relief in certain circumstances from presenting comparative information in the notes to the financial statements when transitioning from Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements to Tier 2: Australian Accounting Standards – Simplified Disclosures.

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 1053 and AASB 1060 set out in AASB 1057 *Application of Australian Accounting Standards*.

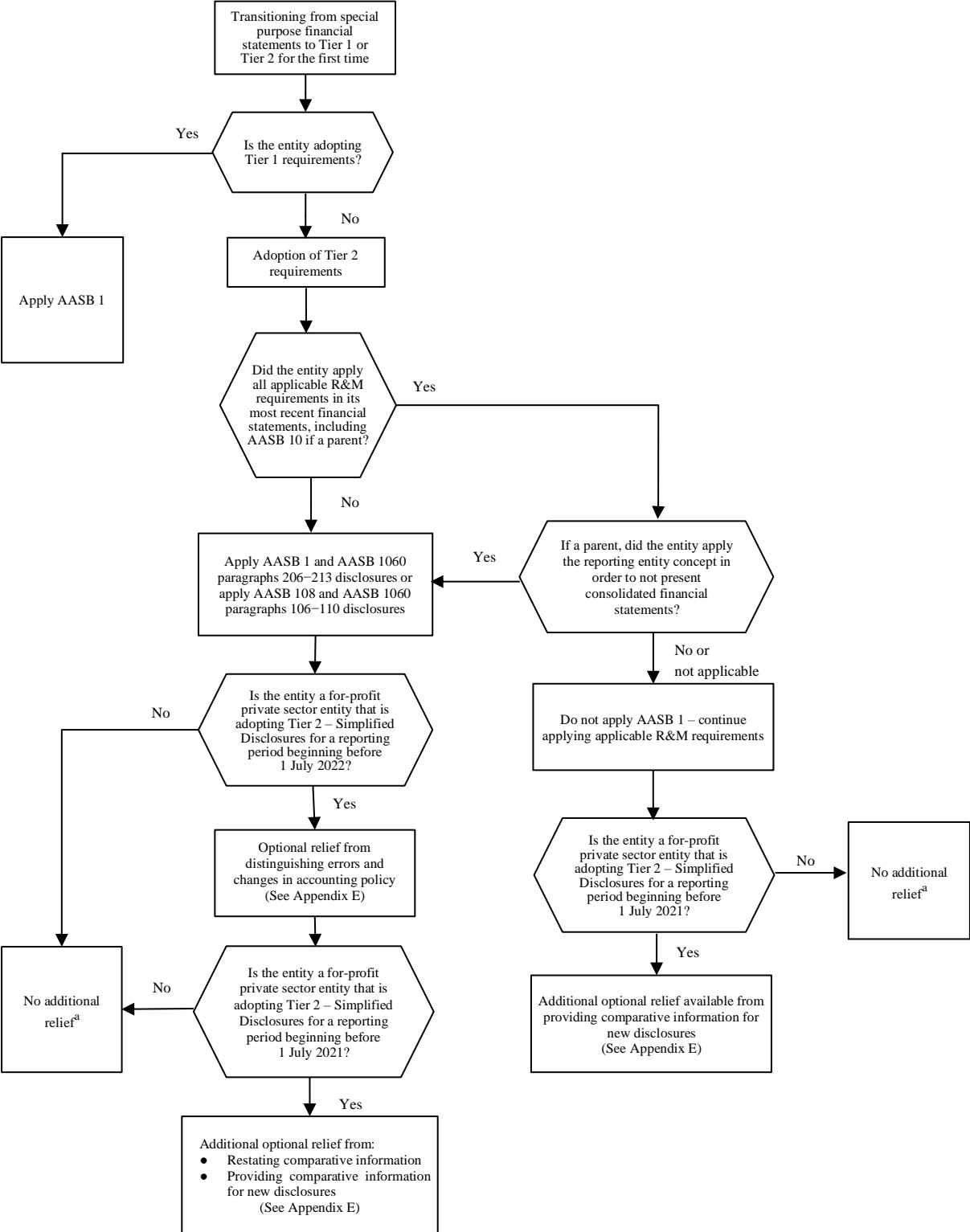
This Standard applies to annual periods beginning on or after ... [1 July 2021]. Earlier application of this Standard is permitted, provided that entities apply AASB 1060 to the same period.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, 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 1053

In Appendix C accompanying AASB 1053, Chart 1: First-time Adoption of Tier 1 or Tier 2 Reporting Requirements (paragraphs 18–18D) is replaced with the following.

Chart 1: First-time Adoption of Tier 1 or Tier 2 Reporting Requirements (paragraphs 18–18D)



^a AASB 1060, paragraph B1, also provides optional relief from presenting comparative information for new disclosures for not-for-profit entities transitioning from Tier 2 – Reduced Disclosure Requirements

In Appendix E, a heading is added immediately before paragraph E1.

Short-term exemptions for for-profit private sector entities

Amendments to AASB 1060

In Appendix B, paragraph B1 is amended.

- B1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 July 2021. Earlier application is permitted. If an entity applies this Standard earlier:
- (a) it shall disclose that fact; and
 - (b) if the entity is a for-profit private sector entity – it may elect to apply the short-term exemptions in AASB 1053 *Application of Tiers of Australian Accounting Standards* Appendix E, where applicable; or
 - (c) if the entity is a not-for-profit entity – notwithstanding paragraph 20, it need not present comparative information in the notes to the financial statements if the entity did not disclose the comparable information in its most recent previous Tier 2 general purpose financial statements.

Commencement of the legislative instrument

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2021-X Amendments to Australian Accounting Standards – Transition Between Tier 2 Frameworks for Not-for-Profit 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.

Reasons for proposing amendments

BC2 The Board noted that not-for-profit (NFP) entities transitioning from Tier 2 – Reduced Disclosure Requirements and adopting Tier 2 – Simplified Disclosures early (ie for reporting periods beginning before 1 July 2021) would not be able to access the transitional relief that is available to for-profit private sector entities. For-profit private sector entities that transition between the Tier 2 frameworks by adopting Tier 2 – Simplified Disclosures early are provided relief from presenting comparative information in the notes to the financial statements if the entity did not previously disclose the comparable information in its most recent previous financial statements. This relief is set out in paragraph E4 of AASB 1053 *Application of Tiers of Australian Accounting Standards*.

BC3 To address this difference, the Board decided to issue an exposure draft proposing amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to propose this relief for NFP entities if they elect to adopt Tier 2 – Simplified Disclosures (ie comply with AASB 1060) early.

Scope

BC4 The Board also considered whether to extend to NFP entities other relief available to for-profit private sector entities under AASB 1053 Appendix E. For example, paragraphs E5-E7 provide relief from restating comparative information to for-profit private sector entities that had not complied with all the recognition and measurement requirements of Australian Accounting Standards (including, if a parent entity, not presenting consolidated financial statements prepared in accordance with AASB 10 *Consolidated Financial Statements*) in their most recent previous special purpose financial statements (SPFS). However, the Board decided not to extend any additional relief to NFP entities, as this could result in the loss of useful, restated comparative information. The Board also noted that it had decided to grant such relief to for-profit private sector entities due to the mandatory removal of SPFS for such entities, which does not apply to NFP entities. Transition by NFP entities from SPFS to general purpose financial statements will be considered in more detail by the Board in its deliberations on the Board’s separate NFP Financial Reporting Framework project.

Location of amendments

BC5 In developing this Exposure Draft, the Board considered whether to propose making the amendments to provide the transitional relief to AASB 1053 or to AASB 1060. While the equivalent relief for for-profit private sector entities is included in AASB 1053 (Appendix E), the Board decided that in this instance AASB 1060 was the more appropriate location. This is because the proposed relief amendments would apply only to NFP entities that are transitioning early from Tier 2 – Reduced Disclosure Requirements. The Board concluded that entities transitioning between the Tier 2 frameworks would not normally refer to AASB 1053 for transition guidance as AASB 1053 deals with entities transitioning between tiers, rather than to new requirements relating to the same tier.

BC6 The Board is also proposing some editorial improvements to AASB 1053 to highlight that the relief set out in Appendix E of AASB 1053 applies only to for-profit private sector entities.