

# **Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards**

Comments to the AASB by 4 October 2021



**Australian Government**

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**Australian Accounting  
Standards Board**

## Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 4 October 2021.

## Formal Submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-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@asb.gov.au](mailto:standard@asb.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 amendments proposed in this Exposure Draft would require entities to disclose material accounting policy information rather than significant accounting policies. The proposed amendments are consistent with amendments already made to a number of other Australian Accounting Standards by AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*.

The proposed amendments are necessary to ensure there is consistency in the terminology used in Australian Accounting Standards to minimise the risk of interpretation and application differences.

### What we are proposing

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This Exposure Draft proposes amendments to:

- (a) AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, to require entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements;
- (b) AASB 1054 *Australian Additional Disclosures*, to reflect the updated terminology used in AASB 101 *Presentation of Financial Statements*; and
- (c) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, to require entities to disclose their material accounting policy information rather than their significant accounting policies.

### Application date

It is proposed that the amendments would apply to annual periods beginning on or after 1 January 2023, with earlier application permitted. This is the application date of the amendments set out in AASB 2021-2.

### What happens next

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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

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Comments are invited on any of the proposals in this Exposure Draft by 4 October 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**

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The AASB would particularly value comments on the following:

1. Do you agree with the proposed amendments to AASB 1060, AASB 1054 and AASB 1049? If you disagree, please explain why.
2. 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:

3. Whether the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* have 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 – DISCLOSURE OF ACCOUNTING POLICIES: TIER 2 AND OTHER STANDARDS**

	<i>from paragraph</i>	
<b>OBJECTIVE</b>		<b>1</b>
<b>APPLICATION</b>		<b>2</b>
<b>AMENDMENTS TO AASB 1049</b>		<b>5</b>
<b>AMENDMENTS TO AASB 1054</b>		<b>6</b>
<b>AMENDMENTS TO AASB 1060</b>		<b>7</b>
<b>COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT</b>		<b>8</b>

### **[DRAFT] BASIS FOR CONCLUSIONS**

[Draft] Australian Accounting Standard AASB 2021-X *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Standards* is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

## Preface

### Standards amended by AASB 2021-X

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This [draft] Standard makes amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007), AASB 1054 *Australian Additional Disclosures* (May 2011) 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

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#### Main requirements

AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* amended AASB 101 *Presentation of Financial Statements* and three other Standards to address disclosure of material accounting policy information rather than significant accounting policies. These amendments were designed to help entities provide accounting policy disclosures that are more useful to the users of their financial statements.

Consistent with the amendments made by AASB 2021-2, this [draft] Standard amends:

- (a) AASB 1049, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- (b) AASB 1054, to reflect the updated terminology used in AASB 101; and
- (c) AASB 1060, to require entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements.

#### Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2023], with earlier application permitted.

## [Draft] Accounting Standard AASB 2021-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2021-X *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Standards* 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 – Disclosure of Accounting Policies: Tier 2 and Other Standards*

### Objective

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- 1 This Standard amends:
- (a) AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007);
  - (b) AASB 1054 *Australian Additional Disclosures* (May 2011); and
  - (c) AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (March 2020);
- to require entities to disclose their material accounting policy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements. These amendments reflect the issuance of AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* (March 2021).

### Application

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- 2 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*.
- 3 This Standard applies to annual periods beginning on or after ... [1 January 2023]. This Standard may be applied to annual periods beginning before ... [1 January 2023].
- 4 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 1049

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- 5 Paragraphs 39 and 40 and the heading above paragraph 39 are amended. The introduction to the Illustrative Examples accompanying AASB 1049 and Illustrative example C are also amended. Deleted text is struck through and new text is underlined.

### Notes

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#### **Summary of material significant accounting policy information policies**

39 **In addition to the disclosures required by other Australian Accounting Standards in the notes containing material ~~the summary of significant-accounting policy information policies~~, the following disclosures shall be made prominently in the ~~that~~ notes:**

...

40 An example of the information to be included in the material ~~summary of significant-accounting policy information policies~~ disclosed for the GGS in accordance with paragraph 39 is provided in Illustrative Example C.

...

## Illustrative examples

...

C **Extract from the notes containing material ~~the summary of significant-accounting policy information policies~~ of a General Government Sector ...**

...

Illustrative Examples A and B do not purport to identify all possible differences between GAAP and GFS, nor to present in the financial statements all the line items as might be required by a different set of assumptions. Additionally, they do not illustrate the disclosure of comparative period information or the notes required by paragraphs 39<sup>1</sup>; 41 (except the relevant reconciliation notes)<sup>2</sup>; 52(a) and the explanation of differences required by 52(b)(ii)(B). They also do not illustrate all the disclosures required by other Australian Accounting Standards, such as the disclosure of budgetary information required by AASB 1055 *Budgetary Reporting*.

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1 Illustrative Example C provides an example of the information to be included in the summary of material ~~significant-accounting policy information policies~~ of the GGS in accordance with paragraph 39(b).

...

## Illustrative example C

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**Extract from the notes containing material ~~the summary of significant-accounting policy information policies~~ of a General Government Sector**

...

## Amendments to AASB 1054

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6 Paragraph 9B is amended. In the implementation guidance and illustrative examples accompanying AASB 1054, paragraphs IG1 and IG5 and the heading above paragraph IG5 are also amended. Deleted text is struck through and new text is underlined:

9B *Implementation guidance and illustrative examples for not-for-profit private sector entities* accompanies this Standard. It illustrates the application of the requirements in paragraph 9A and their relationship to the requirements in AASB 101 *Presentation of Financial Statements* for the disclosure of an entity's material ~~significant-accounting policy information policies~~.

...

## Implementation guidance and illustrative examples for not-for-profit private sector entities

...

IG1 The AASB has prepared this guidance and examples to explain and illustrate the application of the requirements in paragraph 9A of this Standard and their relationship to the requirements in AASB 101 *Presentation of Financial Statements* for the disclosure of a not-for-profit private sector entity's material ~~significant-accounting policy information policies~~. These requirements apply to



entities applying this Standard, including those required by legislation to comply. An entity preparing special purpose financial statements that is not specifically required to comply with AASB 1054 may elect not to comply with these requirements, however, is encouraged to do so.

...

## **Disclosure of accounting policy information**

IG5 Not-for-profit private sector entities required to apply AASB 1054 in their special purpose financial statements (including those lodged with ASIC or the ACNC), whether consolidated or unconsolidated, are also required to apply AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including:

...

- (c) paragraph 117 of AASB 101, which requires disclosure of material significant accounting policy information comprising the measurement basis (or bases) and the other accounting policies used that are relevant to an understanding of the financial statements.

...

## **Amendments to AASB 1060**

7 Paragraphs 25, 93, 95, 96 and 112, the heading above paragraph 95 and Appendix A are amended. Paragraphs 95A–95E are added. Deleted text is struck through and new text is underlined.

### **Financial Statement Presentation**

...

#### **Complete set of financial statements**

25 A complete set of financial statements of an entity shall include all of the following:

...

- (e) notes, comprising material significant accounting policy information and other explanatory information.

[Based on *IFRS for SMEs* Standard paragraph 3.17]

...

### **Notes to the Financial Statements**

...

#### **Structure of the notes**

...

93 Examples of systematic ordering or grouping of the notes include:

...

- (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

...

- (ii) material significant accounting policy information applied (see paragraph 95);

...

#### **Disclosure of accounting policy information**

95 An entity shall disclose material the following in the significant accounting policy information (see Appendix A). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

- (a) ~~the measurement basis (or bases) used in preparing the financial statements; and~~

(b) ~~the other accounting policies used that are relevant to an understanding of the financial statements.~~

[Based on *IFRS for SMEs* Standard paragraph 8.5]

- 95A Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
- 95B Accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:
- (a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
  - (b) the entity chose the accounting policy from one or more options permitted by Australian Accounting Standards – such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;
  - (c) the accounting policy was developed in accordance with AASB 108 in the absence of an Australian Accounting Standard that specifically applies;
  - (d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 96 and 97; or
  - (e) the accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions – such a situation could arise if an entity applies more than one Australian Accounting Standard to a class of material transactions.
- 95C Accounting policy information that focuses on how an entity has applied the requirements of the Australian Accounting Standards to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Standards.
- 95D If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.
- 95E An entity's conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Australian Accounting Standards.

### Information about judgements

- 96 An entity shall disclose, in the ~~material significant~~ accounting policy information policies or other notes, the judgements, apart from those involving estimations (see paragraph 97), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. [Based on *IFRS for SMEs* Standard paragraph 8.6]

...

### Basic Financial Instruments

...

#### Disclosure of accounting policies for financial instruments

- 112 In accordance with paragraph 95, an entity shall disclose ~~material, in the significant~~ accounting policy information policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements. Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information. [Based on *IFRS for SMEs* Standard paragraph 11.40]

...

## Appendix A Defined terms

*This appendix is an integral part of the Standard.*

The following terms are used in this Standard with the meanings specified. Except to the extent specifically addressed in this Standard, the definitions in other Australian Accounting Standards also apply.

### **Presentation of the financial statements**

*Accounting policies are defined in paragraph 5 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and the term is used in this Standard with the same meaning.*

...

## **Commencement of the legislative instrument**

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8 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 – Disclosure of Accounting Policies: Tier 2 and Other Standards.*

### 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 proposing these amendments

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BC2 In March 2021, the Board issued *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*. This Standard amended:

- (a) *AASB 7 Financial Instruments: Disclosures*, to clarify that information about measurement bases for financial instruments is expected to be material to an entity’s financial statements;
- (b) *AASB 101 Presentation of Financial Statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- (c) *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates;
- (d) *AASB 134 Interim Financial Reporting*, to identify material accounting policy information as a component of a complete set of financial statements; and
- (e) *AASB Practice Statement 2 Making Materiality Judgements*, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

BC3 The amendments made by *AASB 2021-2* principally affect the disclosure requirements and guidance in some Tier 1 Australian Accounting Standards.<sup>1</sup> It is appropriate for the Board to consider making similar amendments to domestic Australian Accounting Standards, including the Tier 2 Standard *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, to ensure there is consistency in the terminology used across Australian Accounting Standards.

### Relevance of the amendments to AASB 1060

BC4 The *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board in considering whether to add to or amend disclosure requirements in *AASB 1060* when the IASB makes amendments to full IFRS Standards.

BC5 Applying this approach, this Exposure Draft proposes that in relation to the amendments made by *AASB 2021-2* to:

- (a) *AASB 101* and *AASB 7*:
  - (i) where *AASB 1060* contains a corresponding paragraph, *AASB 1060* should be updated in a similar manner. If the corresponding paragraph in *AASB 1060* is not updated, entities may interpret and apply the requirements of *AASB 1060* differently from the corresponding requirements in those Standards; and
  - (ii) where guidance paragraphs were added to *AASB 101*, these paragraphs should be added to *AASB 1060*. The intention of these paragraphs is to assist entities in determining whether accounting policy information is material to their financial statements. Therefore, the Board expects this guidance also to be useful for entities preparing Tier 2 financial statements. As *AASB 101* does not apply to entities applying *AASB 1060*, the

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<sup>1</sup> *AASB 1053 Application of Tiers of Australian Accounting Standards* outlines that 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 – Simplified Disclosures (for annual periods beginning on or after 1 July 2021).

Board considered that a cross-reference to AASB 101 would be unhelpful to users of AASB 1060 and took the view that these paragraphs should be added to AASB 1060;

- (b) AASB 134 and AASB Practice Statement 2 – no changes to AASB 1060 are required:
  - (i) AASB 134 applies to the preparation of interim financial reports, whereas AASB 1060 is intended to be used in the preparation of annual general purpose financial statements. Therefore, AASB 1060 does not include any requirements equivalent to those in AASB 134; and
  - (ii) AASB Practice Statement 2 provides non-mandatory guidance to all entities on making materiality judgments when preparing general purpose financial statements in accordance with Australian Accounting Standards. Therefore, AASB 1060 does not include any requirements equivalent to those in AASB Practice Statement 2; and
- (c) AASB 108 – no changes to AASB 1060 are required. The amended paragraphs in AASB 108 already apply to entities complying with AASB 1060.

### **Relevance of the amendments to other Australian Accounting Standards**

BC6 The Board reviewed the requirements of all domestic Australian Accounting Standards (including Interpretations) and Australian-specific requirements in Standards, as identified with the ‘Aus’ prefix. The Board noted that two domestic Standards in addition to AASB 1060 contain references to ‘significant accounting policies’: AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1054 *Australian Additional Disclosures*. The Board also considered it appropriate to propose amendments to these Standards to reflect the updated terminology (ie to require or refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies) for consistency across all Australian Accounting Standards.