

21 January 2021

The Chair  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

**via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)**

Dear Keith

## **AASB Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities***

Deloitte is pleased to respond to the proposals in the Australian Accounting Standards Board ('AASB' or 'Board') Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities* (ED 306 or the 'Exposure Draft').

Overall, we support the AASB's efforts in addressing the issue of the application of Australian Accounting Standards – Simplified Disclosures (Simplified Disclosures) requirements by not-for-profit (NFP) entities and also acknowledge the proposals in ED 306 are an interim measure until such time as the AASB finalises its broader project on the not-for-profit framework.

However, we also provide some recommendations in respect the proposals and the broader issue of transition to Simplified Disclosures that we request the Board urgently consider. These include:

- Extending the proposals to put NFP entities in the same position as for-profit entities on transition to Simplified Disclosures
- Issuing specific guidance on how both NFP and for-profit entities transition between Australian Accounting Standards – Reduced Disclosure Requirements (RDR) and Simplified Disclosures, particularly for entities that are required to prepare consolidated financial statements for the first time. Currently it is unclear as to whether such entities can apply AASB 1 *First-time Adoption of Australian Accounting Standards* (AASB 1)
- Locating of the proposals in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) in AASB 1053.

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In addition, we wish to bring to the Board's attention other issues we have identified in relation to the Simplified Disclosures framework that we believe the AASB should clarify:

- The application of the interaction of the requirements of AASB 1060 and the presentation requirements of other Australian Accounting Standards would benefit from certain clarifications
- It is unclear how the transitional provisions should be applied where an entity has prepared both special purpose financial statements and general purpose financial statements in the prior period.

Our detailed responses to the specific and general matters for comment in ED 306 are outlined in Appendix A, and details of the other matters for the AASB to consider are outlined in Appendix B.

Please contact me at 9671 7553 if you wish to discuss any of our comments

Yours sincerely



**Clive Mottershead**

Partner

## **APPENDIX A – DETAILED RESPONSES TO THE SPECIFIC AND GENERAL MATTERS FOR COMMENT IN ED 306**

### **Specific matters for comment**

- 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.**

We agree that NFP entities 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 where AASB 1060 is applied early.

However, we set out below a number of observations in respect of the proposals and the broader transition to Simplified Disclosures.

#### ***Scope of the proposals for NFP entities***

We recommend that the Board consider extending the relief to all NFP entities in all circumstances, i.e. in cases where the NFP entity is transitioning from special purpose financial statements or Tier 1 financial statements to Simplified Disclosures.

Whilst we acknowledge the Board does not wish to pre-empt its discussions in the NFP Financial Reporting project (paragraph BC 4 of ED 306), we believe the extension should be made available because:

- The reporting mandate for a NFP entity may change, requiring the entity to prepare general purpose financial statements for the first time when it previously prepared special purpose financial statements
- The change from RDR to Simplified Disclosures (and the lower level of disclosure overall) may make it more attractive for NFP entities to transition from Tier 1 to Tier 2 (where they are permitted to do so)
- There is nothing preventing NFP entities from choosing to prepare general purpose financial statements under existing Australian Accounting Standards.

As a result, where the entity is required to, or chooses to, prepare Tier 2 financial statements, such entities are placed at a disadvantage to for-profit entities without guidance and relief equivalent to those entities.

#### ***Guidance on how entities should transition from RDR to Simplified Disclosures***

We are concerned that Australian Accounting Standards do not contain sufficient guidance on how entities (both NFP and for-profit) should transition from RDR to Simplified Disclosures.

AASB 1053 contains provisions and guidance on the transition approach on moving from special purpose financial statements to Simplified Disclosures. These require or permit a transitioning entity to adopt AASB 1 *First-time Adoption of Australian Accounting Standards* (AASB 1) and/or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108).

However, AASB 1053 does not address the transition process for entities that have previously prepared general purpose financial statements in accordance with RDR and complied with all recognition and measurement requirements of Australian Accounting Standards, but did not previously prepare consolidated general purpose financial statements in accordance with AASB 10 *Consolidated Financial Statements* (AASB 10) as a result of the application of the consolidation exemption in paragraph 4(a) of that Standard.

An example of such entities may be those that prepare general purpose financial statements as a result of the requirements of s.3CA of the *Tax Administration Act 1953*.

Because of the amendments made to paragraph Aus4.2 of AASB 10 by AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (AASB 2019-1) and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2), ultimate Australian parent entities that previously may have availed themselves of the exemption to not present consolidated financial statements in paragraph 4(a) of AASB 10 under RDR (on the basis that they were not reporting entities) are not able to apply the exemption when applying Simplified Disclosures.

There is no specific guidance provided under Australian Accounting Standards for entities in this situation and accordingly and therefore the Standards could be read to require such entities to apply the consolidation requirements fully retrospectively. The Basis for Conclusions on AASB 2020-2 notes that “the extent of entities impacted is currently unknown, but is expected to be limited” because such entities would be expected to have comprehensive IFRS-compliant information available and face less challenges than other entities when retrospectively consolidating. In our experience, many entities do not have sufficient information to retrospectively consolidate as any such information is prepared at the higher group level and is not relevant at the level of the ultimate Australian parent entity. The ability for comparative information to be retrospectively audited is also problematic. In addition, the proposals in ED 306 are currently limited specifically to the scenario where a NFP entity transitions from RDR to Simplified Disclosures and therefore it is necessary to understand the transition requirements.

We also note that entities transitioning from RDR to Simplified Disclosures are effectively in the same position as entities transitioning from stand-alone special purpose financial statements to consolidated general purpose financial statements (Simplified Disclosures) and therefore we recommend that such entities are also provided with the same relief as specified in paragraph 18A(b) of AASB 1053, and accordingly are permitted to apply AASB 1 or AASB 108 on transition.

Furthermore, an entity applying RDR that transitions to Tier 1 is required to apply AASB 1. It seems inconsistent to afford the ability to apply AASB 1 to such a transition between frameworks but not in (limited) circumstances when transitioning between different Tier 2 frameworks.

Accordingly, we recommend the Board consider inserting a paragraph in AASB 1053 to provide specific guidance for all these entities.

Our suggested wording is as follows, adapted from the existing wording in paragraph 18A of AASB 1053:

***“Transition between Tier 2 frameworks***

- XX. *An entity transitioning from Australian Accounting Standards – Reduced Disclosure Requirements to Australian Accounting Standards – Simplified Disclosures where the financial statements were previously prepared:*
- (a) without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity (as defined in AASB 1057), shall apply either:*
    - (i) all the relevant requirements of AASB 1; or*
    - (ii) Australian Accounting Standards – Simplified Disclosures requirements directly using the requirements in AASB 108; and*
  - (b) otherwise (including, if a parent entity, presenting consolidated financial statements prepared in accordance with AASB 10), shall apply Australian Accounting Standards – Simplified Disclosures directly using the requirements in AASB 108 and shall not apply AASB 1.”*

- 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.**

We do not agree with including the NFP relief in AASB 1060 when the relief for private sector for-profit entities is included in AASB 1053. We believe this will lead to continued confusion as to which transitional provisions apply to various categories of entities.

## General matters for comment

- 3. Whether the AASB *Not-for-Profit Entity Standard-Setting Framework* has been applied appropriately in developing the proposals in this Exposure Draft?**

As noted in our response to Question 1, we believe that the proposals will place NFP entities at a potential disadvantage when compared to their for-profit counterparts. Accordingly, it may be questionable as to whether the proposals are consistent with the objective in the AASB *Not-for-Profit Entities Standard-Setting Framework* of ensuring comparability within and across sectors.

- 4. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?**

We are not aware of any regulatory 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?**

As noted in our response to Question 1, without consistent treatment between NFP and for-profit entities, NFP entities may be placed at a potential disadvantage when compared with their for-profit counterparts. This may result in audit or assurance challenges where NFP entities are required to prepare comparative financial statements and other information on transition to Simplified Disclosures that has not been subject to audit or assurance in comparative periods. We believe this may require a broader response than the proposals in ED 306.

- 6. Whether, overall, the proposals would result in financial statements that would be useful to users?**

Subject to the matters noted elsewhere in this letter, we believe the financial statements prepared on the basis of the proposals in ED 306 will be useful to users.

- 7. Whether the proposals are in the best interests of the Australian economy?**

Subject to the matters noted elsewhere in this letter, we believe the financial statements prepared on the basis of the proposals in ED 306 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.**

We have no further observations on this matter in addition to those already outlined elsewhere in this letter.

## APPENDIX B – ADDITIONAL MATTERS FOR CONSIDERATION IN RESPECT OF SIMPLIFIED DISCLOSURES

### Overview

This Appendix outlines certain additional matters that have arisen from our practical experience with implementation of Simplified Disclosures.

As these matters will have an impact on how entities transition to Simplified Disclosures, we suggest the Board address these matters prior to the mandatory application of AASB 1060 and AASB 2020-2 from 1 July 2021.

### Clarification of the interaction of AASB 1060 and the presentation requirements in other Accounting Standards

We have identified some areas in the way in which AASB 1060 interacts with the presentation requirements of other Australian Accounting Standards (as outlined in paragraph IG1 of AASB 1060) that could benefit from clarification.

In many cases, the presentation requirements which continue to apply to entities preparing Simplified Disclosures financial statements refer to presentation and/or disclosure requirements that do not apply to such entities. For example:

- In AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, an entity applying AASB 1060 is required to apply paragraphs 31, 32, 33A, 34, 36 and 37-40. However:
  - Paragraph 33A refers to an entity presenting “a separate statement as described in paragraph 10A of AASB 101” although AASB 101 does not apply. The corresponding reference in AASB 1060 is paragraph 25(b)
  - Paragraph 34 requires the entity to “re-present the disclosures in paragraph 33 for prior periods presented” in certain circumstances even though paragraph 33 does not apply. The corresponding reference in AASB 1060 is paragraph 52(e)
  - Paragraph 36 refers to “the component previously presented in discontinued operations in accordance with paragraphs 33-35” even though some of these paragraphs do not apply
- In AASB 16 *Leases*, an entity is required to apply paragraphs 47-50 and 88. However:
  - Paragraph 49 also refers to “paragraph 82(b) of AASB 101”, even though AASB 101 does not apply. The corresponding reference in AASB 1060 is paragraph 52(e)
  - Paragraph 50(b) refers to the application of the requirements of AASB 107 *Statement of Cash Flows* even though AASB 107 does not apply
- In AASB 119 *Employee Benefits*, an entity is required to apply paragraph 131-134. However, paragraph 134 refers to presentation “in accordance with AASB 101” even though AASB 101 does not apply
- An entity is required to continue to apply AASB 132 *Financial Instruments: Presentation* in full, even though this Accounting Standard references various other Accounting Standards and disclosure requirements that do not apply (e.g. paragraph 40 refers to both AASB 101 and the disclosure requirements of AASB 112, and paragraph 43 refers to the disclosure requirements of AASB 7 *Financial Instruments: Disclosures*).

Furthermore, paragraph 33 of AASB 1060 refers to AASB 8 *Operating Segments*, AASB 133 *Earnings Per Share* and AASB 134 *Interim Financial Reporting*. Each of these Standards contain references to presentation or disclosure requirements that do not apply in Simplified Disclosures financial statements.

In particular, a Tier 2 entity that chooses to prepare interim financial reports would face challenges in applying AASB 134 in the context of providing an update on the latest complete set of annual financial statements. For instance, there appears to be no capacity under AASB 134 for an entity to present a statement of income and retained earnings.

Ways to provide clarification of these issues could include:

- AASB 1060 could include explicit requirements stating that where a presentation requirement of another Accounting Standard refers to a presentation requirement of AASB 101 or AASB 107, that that reference is instead read to refer to the equivalent presentation requirements in AASB 1060
- The Appendices to each Australian Accounting Standard that amends the application of the disclosure requirements of the various Standards could be extended to amend the relevant presentation requirements. As an illustration, Appendix A to AASB 112 could have an additional “Aus” paragraph that modifies the paragraphs noted above, e.g. “When applying paragraph 77, an entity that applies AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* shall read the reference to ‘statement(s) of profit or loss and other comprehensive income’ to include a reference to the statement of income and retained earnings permitted by paragraph 26 of AASB 1060”
- Paragraph 33 of AASB 1060 could be amended to explain that if a Tier 2 entity applies these requirements, that references to Accounting Standards that do not apply to the entity shall instead be read as a reference to the relevant presentation provisions of AASB 1060.

## **Entities preparing both special purpose financial statements and general purpose financial statements in prior periods**

We are aware of several entities who have historically prepared two sets of financial statements in accordance with Australian Accounting Standards for an entity for a given period. For example, when entities are considered CBC reporting entities (formerly significant global entities) under the *Income Tax Assessment Act 1997*, and so are captured by s.3CA of the *Tax Administration Act 1953*.

In some cases, these entities may choose to lodge stand-alone special purpose financial statements with ASIC in accordance with Part 2M.3 of the *Corporations Act 2001*, and later lodge unaudited consolidated general purpose financial statements with the Tax Commissioner under s.3CA of the *Tax Administration Act 1953*. This may occur where the entity has many subsidiaries (particularly in foreign jurisdictions), or where record keeping, information gathering, system design and requirements or other factors mean that the general purpose financial statements cannot be prepared before the reporting deadline arising under the *Corporations Act 2001*.

AASB 1053 does not contemplate this situation and it is unclear whether paragraph 18A can be applied in this situation when preparing consolidated financial statements on transition to Simplified Disclosures under the *Corporations Act 2001*. It would be useful for the AASB to clarify that this paragraph can be applied in these circumstances<sup>1</sup>.

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<sup>1</sup> The same issue does not arise in respect of entities transitioning to Tier 1 financial statements as a private sector for-profit entity that prepared special purpose financial statements or Tier 2 financial statements in the prior period is required to apply AASB 1 (due to paragraphs 18 and 21(a) of AASB 1053).