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Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

Our ref ED 315 Submission

27 January 2022

Dear Dr Kendall

### **Exposure Draft 315 Extending Transition Relief under AASB 1**

We are pleased to have the opportunity to comment on Exposure Draft 315 *Extending Transition Relief under AASB 1* (ED 315).

#### ***AASB 1 optional exemption***

We support the proposal to amend AASB 1 *First-time Adoption of Australian Accounting Standards* to allow a subsidiary preparing general purpose financial statements (GPFS) for the first time to apply the optional exemption in paragraph D16(a) and measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements where the parent has already adopted either Australian Accounting Standards (AAS) or IFRS® Standards.

The proposed amendment will provide a cost saving benefit to impacted entities. In addition, the objective of the exemption should apply equally where the parent complies with AAS or IFRS Standards – given the similarity between the two frameworks.

#### ***Transition from unconsolidated Tier 2 (RDR) to consolidated Tier 2 (SD)***

In general, we support the outcome of applying AASB 1 when preparing consolidated financial statements for the first time. Refer to Appendix for further discussion.

We have no comments in relation to the general matters set out on page 5 of ED 315.



We would be pleased to discuss our comments with members of the AASB or its staff.  
If you wish to do so, please contact myself on (02) 9455 9744.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Michael Voogt', written over a faint, stylized signature line.

Michael Voogt  
Director

## Appendix

### ***Transition from unconsolidated Tier 2 (RDR) to consolidated Tier 2 (SD)***

We support the objective for allowing for-profit private sector entities transitioning from unconsolidated GPFS Tier 2 – Reduced Disclosure Requirements (RDR) to consolidated GPFS Tier 2 – Simplified Disclosures (SD) to apply AASB 1 when preparing consolidated financial statements for the first time. However, we believe that AASB 1 already provides guidance on this matter and as such the addition of paragraph 20A is not required.

*What do we mean?*

KPMG has published guidance in *Insights into IFRS* (6.1.80.10):

*An entity is a first-time adopter in relation to a set of financial statements – for example, each of its separate and individual or consolidated financial statements – rather than in relation to the entity. Therefore, it is possible for an entity, through its different reporting entities, to be a first-time adopter more than once over a number of years, in respect of each set of financial statements that it prepares.*

*For example, an entity that prepares separate and consolidated financial statements can be a first-time adopter in its consolidated financial statements in one year and a few years later a first-time adopter in its separate financial statements.*

This concept has applied in Australia – for example when we considered the reporting entity concept, we considered both if the parent is a reporting entity and whether the group is a reporting entity. The ‘new’ IFRS Conceptual Framework has not changed this concept. The new framework has redefined the term ‘reporting entity’ – but not ‘entity’.

So, for the typical fact pattern you describe:

- Since IFRS Standards were adopted in Australia both the parent and the group have been assessed as non-reporting entities.
- The parent has elected to prepare special purpose financial statements (SPFS) and presented parent only (i.e., not consolidated) financial statements.
- These financial statements are separate financial statements – as defined in AASB 127 *Separate Financial Statements*.
- For the year ended 30 June 2022 the parent is required to prepare GPFS and qualifies to prepare GPFS Tier 2.
- Assume for the fact pattern that the guidance in AASB 10 *Consolidated Financial Statements* requires the parent entity to prepare consolidated financial statements.

If we consider the guidance in AASB 1:

- Paragraph 3 – the consolidated (reporting) entity has not previously presented financial statements. As such 3(d) would require the application of AASB 1.
- Paragraph 4A may also apply for other variations of the fact pattern.

Based on the above it is arguable that the amended drafted in paragraph 20A of ED 315 is not required.

#### *Other comments on AASB 1053*

##### Use of term 'entity'

We believe that AASB 1053 *Application of Tiers of Australian Accounting Standards* would benefit from some further clarity around the use of the term 'entity' – in light of the principle that the parent of a group and the group are two separate (reporting) entities.

For example, paragraph 18A(b) discusses an entity that has (most recently) prepared financial statements without presenting consolidated financial statements. This would mean that the entity has prepared parent only separate financial statements. If the parent now presents group (consolidated) financial statements, then they are not separate financial statements anymore.

Again, the guidance in AASB 1 paragraph 3 would be applied in the consolidated financial statements.

##### Consistency between paragraphs – existing 18A, 19B and proposed 20A

Based on our consideration an issue may arise for a following fact pattern:

- Group consists of a parent and one subsidiary.
- Historically the group has prepared consolidated GPFS Tier 2 RDR (years up to 30 June 2020 – with full compliance), but in the most recent financial year (30 June 2021) the parent prepared SPFS.

In this fact pattern paragraph 18A could **not** be applied – as the entity (group) is not applying Tier 2 reporting requirements for the first time (a requirement in the first sentence of paragraph 18A). This is the case even though the most recent previous financial (separate) financial statements were in the form of SPFS.

*We note that the proposed paragraph 20A only refers to the most recent previous annual financial statements.*

Paragraph 19B provides guidance where an entity has previously applied GPFS Tier 2 in a previous reporting period. Applying this to the above fact pattern paragraph 19B(b) would not be met as the most recent previous annual financial statements for the group (reporting) entity – being 30 June 2020 – **did** make an explicit and unreserved statement of compliance with Tier 2 reporting requirements. In this fact pattern the 30 June 2021 financial statements were separate financial statements (i.e., not the group (reporting) entity).





Summary

Based on the above discussion, for some common fact patterns, we believe that AASB 1053 would benefit from some further clarity around the use of the term 'entity'. This may help with interpretation of the intended meaning of the first-time adoption and reapplication of Australian Accounting Standards paragraphs of the standard.

