



Project:	Australian Financial Reporting Framework	Meeting:	September 2021 (M183)
Topic:	First-time adoption of AASB 1 by a subsidiary	Date of this paper:	23 August 2021
Contact(s):	Kim Carney kcarney@aasb.gov.au	Agenda Item:	8.1
	Nikole Gyles ngyles@aasb.gov.au	Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Initial discussions

Objective of this agenda item

1. From 1 July 2021, certain for-profit private sector entities will need to prepare general purpose financial statements (GPFS) for the first time. Stakeholders have raised two specific concerns related to the first-time adoption of Australian Accounting Standards by some of these entities. The object of this paper is for the Board to **consider** these issues and **decide** on the next steps.

Reasons for bringing this paper to the Board

2. From 1 July 2021, certain for-profit-private sector entities will no longer be able to prepare special purpose financial statements (SPFS) following the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Instead, entities will be required to prepare GPFS. In addition, some entities may be required to consolidate for the first time.¹
3. To support the removal of SPFS, the Board issued *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (Tier 2 Simplified Disclosures) which replaced the existing Tier 2 Reduced Disclosure Regime (Tier 2 RDR) from the same date.
4. In planning for the transition to Tier 2 Simplified Disclosures, staff has been asked by a stakeholder about the application of AASB 1.D16(a), which, in summary, allows a subsidiary to use the carrying amounts recognised in its parents consolidated financial statements in its first Australian-Accounting-Standards financial statements, where the subsidiary transitions to Australian Accounting Standards after the parent.
5. The requirement in AASB 1.D16(a) refers to the parent's date of transition **to Australian Accounting Standards** [emphasis added]. The stakeholder has asked whether the reference to Australian Accounting Standards:
 - (a) intentionally limits the application of this paragraph to circumstances where the parent entity has adopted Australian Accounting Standards, or
 - (b) could be read as a reference to IFRS Standards where compliance with IFRS Standards would result in the same outcome as compliance with Australian Accounting Standards.

¹ Entities may be required to prepare consolidated GPFS for the first time if historically they met the exemption in AASB 10 *Consolidated Financial Statements*. AASB 10.AusCFAus4.2 (as it applied to for-profit private sector entities prior to 1 July 2022) did not require the presentation of consolidated financial statements if the ultimate Australian parent entity/the group were not reporting entities.

6. Staff understand that a number of the entities affected by the removal of SPFS and the introduction of Tier 2 Simplified Disclosures are ultimate Australian parent entities that are subsidiaries of an overseas parent that complies with IFRS Standards (e.g., foreign-controlled proprietary companies (small and large)). Therefore, using information from the parent entity's consolidated financial statements on transition is likely to be beneficial.
7. Staff also understand there are some other Australian parent entities that are subsidiaries of an overseas parent that are also affected by the removal of the reporting entity concept. These entities include some Significant Global Entities (SGEs) that were previously preparing unconsolidated Tier 2 RDR GPFS for regulatory purposes as they were not reporting entities. These entities will need to prepare consolidated financial statements for the first time from 1 July 2021 and would also benefit from being able to apply the exemption in AASB 1.D16(a). These entities are currently unable to apply AASB 1.

Attachments

- Agenda paper 8.2 Extracts from certain Australian Accounting Standards [supporting material folder]
- Agenda paper 8.3 *AASB For-Profit Entity Standard-Setting Framework (July 2021)* [supporting material folder]

Structure

8. This paper is set out as follows:
 - (a) Background (paragraphs 9 to 15)
 - (b) Issue 1 — optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures (paragraphs 16 to 42)
 - (c) Issue 2 — application of AASB 1 by entities transitioning from single entity Tier 2 RDR to consolidated Tier 2 Simplified Disclosures (paragraphs 43 to 64)
 - (d) Due process (paragraphs 65 to 66)
 - (e) Possible next steps and timeline (paragraph 67)
 - (f) Appendix A – high-level summary and comparison (paragraphs 68 to 72)

Background

9. AASB 1 applies to an entity's first Australian-Accounting-Standards financial statements (including interim financial reports).²
10. An entity's first Australian-Accounting-Standards financial statements are the first annual financial statements in which the entity adopts Australian Accounting Standards, by an explicit and unreserved statement in those financial statements, of compliance with Australian Accounting Standards.³
11. An entity's financial statements are considered its first Australian-Accounting-Standards financial statements when, for example, its most recent previous financial statements were:
 - (a) prepared:
 - (i) in accordance with national requirements that are not consistent with Australian Accounting Standards or International Financial Reporting Standards (IFRS Standards) in all respects;
 - (ii) in conformity with Australian Accounting Standards or IFRS Standards in all respects, except that the financial statements did not contain an explicit and

² AASB 1.2

³ Paragraph 3 and Appendix A of AASB 1.

- unreserved statement that they complied with Australian Accounting Standards or IFRS Standards;
- (iii) containing an explicit statement of compliance with some, but not all, Australian Accounting Standards or IFRS Standards;
 - (iv) in accordance with national requirements inconsistent with Australian Accounting Standards or IFRS Standards, using some individual Australian Accounting Standards or IFRS Standards to account for items for which national requirements did not exist;
 - (v) in accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with Australian Accounting Standards or IFRS Standards;
 - (vi) in accordance with Australian Accounting Standards or IFRS Standards for internal use only, without making them available to the entity's owners or any other external users;
 - (vii) as a reporting package in accordance with Australian Accounting Standards or IFRS Standards for consolidation purposes without preparing a complete set of financial statements as defined in AASB 101 *Presentation of Financial Statements*; or
- (b) not prepared for previous periods.
12. In principle, a first-time adopter⁴ should prepare financial statements as if it had always applied Australian Accounting Standards. Although entities routinely apply new accounting standards through prior year adjustments, adopting Australian Accounting Standards for the first time often represents a new basis of accounting.
 13. The objective of AASB 1 is to ensure that an entity's first Australian-Accounting-Standards financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
 - (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with Australian Accounting Standards; and
 - (c) can be generated at a cost that does not exceed the benefits.⁵
 14. The transitional provisions in Australian Accounting Standards (other than AASB 1) only apply to entities that already report under Australian Accounting Standards. For this reason, a first-time adopter cannot apply those transition provisions unless specified by AASB 1, and AASB 1 contains several exceptions to this general rule. There are mandatory exceptions (i.e., AASB 1 prohibits retrospective application of Australian Accounting Standards in some cases where this would require judgement by management about past conditions after the outcome of a particular transaction is already known). There are also optional exemptions (i.e., AASB 1 grants optional exemptions from the general requirement of full retrospective application of Australian Accounting Standards in force at the end of an entity's first Australian-Accounting-Standards reporting period).⁶
 15. AASB 1.D1 includes optional exemptions relating to many topics, including share-based payments, investments in subsidiaries, joint ventures and associates, assets and liabilities of subsidiaries, associates and joint ventures and revenue.

⁴ A first-time adopter is “*an entity that presents its first Australian-Accounting-Standards financial statements*”. AASB 1, Appendix A.

⁵ AASB 1.1.

⁶ An entity's first Australian-Accounting-Standards reporting period is the “*latest reporting period covered by an entity's first Australian-Accounting-Standards financial statements*”. AASB 1, Appendix A

Issue 1 — optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

16. Within groups, some subsidiaries, associates and joint ventures may have a different transition date to Australian Accounting Standards than the parent. As the differences in transition dates could result in permanent differences between the Australian Accounting Standards information in a subsidiary's financial statements and those it reports to its parent (which are based on the parent's date of transition), the AASB (consistent with the IASB) introduced an optional exemption in AASB 1.
17. AASB 1.D16 contains detailed guidance on the approach to be adopted when a parent adopts Australian Accounting Standards before its subsidiary and how the subsidiary shall measure its assets and liabilities when the subsidiary subsequently adopts Australian Accounting Standards. Specifically, AASB 1.D16 allows the subsidiary to "*measure its assets and liabilities at either:*"
 - (a) *the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in AASB 10, that is required to be measured at fair value through profit or loss); or*
 - (b) *the carrying amounts required by the rest of this Standard, based on the subsidiary's date of transition to Australian Accounting Standards. These carrying amounts could differ from those described in (a):*
 - (i) *when the exemptions in this Standard result in measurements that depend on the date of transition to Australian Accounting Standards.*
 - (ii) *when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in AASB 116 Property, Plant and Equipment, whereas the group may use the revaluation model.*

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.¹⁷

18. AASB 1 does not elaborate on what constitutes 'consolidation adjustments,' but staff understand this could include adjustment required to harmonise a subsidiary's accounting policies with those of the group and routine/mechanical consolidation adjustments such as elimination entries.
19. The following example, adapted from IFRS 1 *First-time Adoption of International Financial Reporting Standards* Implementation Guidance IG Example 8, illustrates how paragraph D16 would be applied:

Background

Parent N presents its (consolidated) first Australian-Accounting-Standards financial statements in 20X5. Its foreign subsidiary O, wholly owned by parent N since formation, prepares information in accordance with Australian Accounting Standards for internal consolidation purposes from that date, but subsidiary O does not present its first Australian-Accounting-Standards financial statements until 20X7.

⁷ Staff highlight that the exemption in AASB 1.D16 can only be applied where the subsidiary was owned by the parent at the parent's date of transition to Australian Accounting Standards. That is, the exemption cannot be applied if the subsidiary was acquired or incorporated after the parent's date of transition to Australian Accounting Standards.

Application of requirements

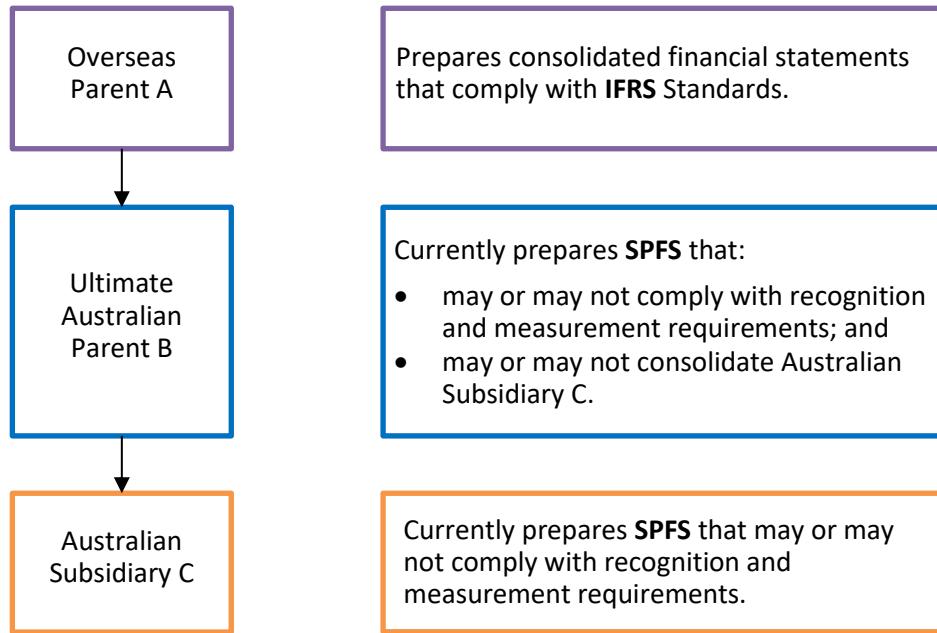
If subsidiary O applies paragraph D16(a) of AASB 1, the carrying amounts of its assets and liabilities are the same in both its opening Australian Accounting Standards statement of financial position at 1 January 20X6 and parent N's consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on parent N's date of transition to Australian Accounting Standards.

Alternatively, subsidiary O may, in accordance with paragraph D16(b) of AASB 1, measure all its assets or liabilities based on its own date of transition to Australian Accounting Standards (1 January 20X6). However, the fact that subsidiary O becomes a first-time adopter in 20X7 does not change the carrying amounts of its assets and liabilities in parent N's consolidated financial statements.

What is the issue?

20. As outlined in paragraph 5 above, staff has received a question regarding the application of AASB 1.D16(a) and, specifically, the reference to Australian Accounting Standards. The question relates to whether the exemption in paragraph D16(a) could be applied where a parent entity adopts IFRS Standards and where compliance with IFRS Standards by the parent would result in the same outcome as compliance with Australian Accounting Standards.
21. Staff understand that many foreign-controlled proprietary companies have historically prepared SPFS that may or may not have complied with recognition and measurement requirements. As a non-reporting entity, the entity may also be preparing unconsolidated or single entity SPFS. Therefore, using the IFRS Standard (and hence Australian Accounting Standard) compliant numbers included in the overseas parent's consolidated financial statements provide a less costly approach, whilst maintaining the usefulness of the information to users of the financial statements.
22. For example, the ability of the subsidiary (that is, the Australian parent) to measure its assets and liabilities at the carrying amounts reflected in the overseas parent entity's consolidated financial statements in relation to business combinations would be useful. Also, it would mean the subsidiary would not be required to apply certain Standards such as AASB 16 *Leases*, for example, to all periods if a modified retrospective approach is adopted. Further, staff expect that information about the subsidiary would often already be reflected in overseas reporting packs. Accordingly, the information is already being prepared and possibly audited (based on the parent's date of transition to IFRS Standards) to assist the parent in preparing their consolidated financial statements. Using this information would save the subsidiary time when preparing its financial statements and it would also mean the subsidiary would not be required to keep two sets of records (i.e. one based on the parent entity's date of transition to IFRS Standards and one based on the subsidiary's date of transition to Australian Accounting Standards).
23. Staff note, however, that applying AASB 1.D16(a) may not always be the preferred option for some entities. This is because AASB 1.D16(a) prevents the subsidiary from electing to apply all the other voluntary exemptions in AASB 1. Using AASB 1.D16(a) effectively means the ultimate parent entity decided which exemption/s will be applied by the subsidiary at the ultimate parent's date of transition. As such, if a subsidiary prefers to use a different exemption (e.g., fair value instead of cost for property, plant and equipment), the subsidiary would need to apply AASB 1.D16(b).
24. For the types of entities noted in paragraph 21 above, staff understand that the overseas parent is unlikely to be applying Australian Accounting Standards. Instead, they may be applying IFRS Standards or IFRS-equivalent Standards. Therefore, staff has been asked whether, when applying AASB 1.16(a), the use of the overseas parent entities numbers is allowed where the parent entity applies **IFRS Standards or IFRS-equivalent Standards** rather than **Australian Accounting Standards**.

25. Consider the following simple group structure:



View 1 – AASB 1.D16(a) is only applicable where the overseas parent applies Australian Accounting Standards

26. This view is based on the literal reading of AASB 1.D16(a), which explicitly references Australian Accounting Standards. Australian Accounting Standards are defined in AASB 1.1(b) (footnote 1) as follows:

"The term 'Australian Accounting Standards' refers to Standards (including Interpretations) made by the AASB that apply to any reporting period beginning on or after 1 January 2005 ..."

27. Staff note that within AASB 1, there are instances where reference is made to compliance with either Australian Accounting Standards **or** IFRS Standards when, for example, referring to the basis on which the financial statements have been prepared. However, no such 'double reference' is included in AASB 1.D16(a).
28. Based on the definition of Australian Accounting Standards and the fact that AASB 1.D16(a) does not explicitly include reference to IFRS Standards as an alternative basis, view 1 concludes that AASB 1.D16(a) is only applicable where the overseas parent has previously transitioned to Australian Accounting Standards.

View 2 – AASB 1.D16(a) is applicable where the overseas parent applies Australian Accounting Standards or IFRS Standards

29. View 2 might be considered an appropriate interpretation where, although the overseas parent's consolidated financial statements do not explicitly state compliance with Australian Accounting Standards, the framework they have applied, e.g., IFRS Standards, gives the same outcome as if Australian Accounting Standards had been applied. The only difference may be some additional Australian-specific disclosures the subsidiary needs to consider.
30. However, staff note that AASB 1.D17 provides specific guidance to addresses a situation where a parent becomes a first-time adopter later than its subsidiary. AASB 1.D17 states, *"However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity"*

subsidiaries. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments."

31. Staffs' preliminary view is that if the overseas parent explicitly adopted Australian Accounting Standards with an explicit and unreserved statement of compliance in a future reporting period, AASB 1 might not apply. For example, if the overseas parent's most recent previous financial statements included an explicit and unreserved statement of compliance with IFRS Standards, the subsequent financial statements in which Australian Accounting Standards were explicitly adopted would not be considered an entity's first Australian-Accounting-Standards financial statements and they would be outside the scope of AASB 1.⁸
32. Staff note that the limitation or otherwise of the reference to Australian Accounting Standards in AASB 1.D16(a) may not have been an issue when Australia transitioned to IFRS-equivalent Standards in 2005 as all entities (i.e., parent and subsidiaries) were transitioning simultaneously. For this reason, AASB 1.D16(a) was not practically available.
33. Noting the two views on how to interpret the reference to Australian Accounting Standards in AASB 1.D16(a), if view 1 is considered the most appropriate application of the requirements, the stakeholder has asked whether the Board would consider a narrow-scope amendment so that AASB 1.D16(a) also applied where an overseas parent has adopted IFRS Standards/IFRS-equivalent Standards, and the parent entity's consolidated financial statements are equivalent to if they had been prepared in accordance with Australian Accounting Standards (i.e., there are no differences between IFRS Standards/IFRS-equivalent Standards and Australian Accounting Standards).
34. Additional examples of situations where AASB 1.D16(a) might be applicable include:
 - (a) where an overseas parent complies with IFRS Standards, and its Australian subsidiary is planning an Initial Public Offering (IPO). In this case, the subsidiary might need to prepare Tier 1 Australian Accounting Standards compliant financial statements for the first time. In this case, it would be helpful for the subsidiary to use the numbers used in the overseas parent entity's consolidated financial statements. Staff understands there is a marked increase in Australian subsidiaries seeking to IPO.
 - (b) Special Purpose Acquisition Companies (SPAC). Staff understands that in this scenario, entities may need to apply AASB 1 (e.g., if the SPAC is a US entity, they would need to comply with SEC requirements and prepare combined financial statements, and the Australian target would apply AASB 1). Again, it would be helpful for the subsidiary to use the numbers used in the overseas parent entity's consolidated financial statements.

How many entities may be affected?

35. Staff understand from limited, targeted outreach the types of situations referred to in paragraph 21 above are expected to be widespread in practice. For example, it will include any foreign subsidiary parent entity that did not previously comply with recognition and measurement and/or did not prepare consolidated financial statements. There may also be instances where some of these entities were preparing consolidated financial statements, however they were only consolidating some subsidiaries (e.g. entities preparing consolidated

⁸ Per AASB 1.4, AASB 1 does not apply "when, for example, an entity:

- (a) *stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with Australian Accounting Standards or IFRSs;*
- (b) *presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with Australian Accounting Standards or IFRSs; or*
- (c) *presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with Australian Accounting Standards or IFRSs, even if the auditors qualified their audit report on those financial statements."*

financial statements for a closed group to apply the relief in [ASIC Corporations \(Wholly-owned Companies\) Instrument 2016/785](#).

36. As an example, [AASB Research Report 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements](#) noted that approximately 2,377⁹ small foreign-controlled proprietary companies were expected to be affected by the removal of SPFS (i.e., they were preparing SPFS and would be required to prepare GPFS). Whilst Research Report 12 focused only on compliance with recognition and measurement requirements and did not identify whether entities prepared consolidated financial statements, it is a helpful starting point to understand the **maximum** number of one type of entity possibly affected by Issue 1 in this staff paper. Suppose all foreign-controlled small proprietary companies that prepared SPFS and did not comply with recognition and measurement are assumed to be parent entities and are assumed not to prepare consolidated financial statements. In that case, up to 570¹⁰ small foreign-controlled proprietary companies might be affected.¹¹ This does not consider other foreign-controlled entities that were complying with recognition and measurement but who were not preparing consolidated financial statements.¹²

Preliminary staff view and application of the AASB For-Profit Entity Standard-Setting Framework (FP SSF)

37. Staffs' preliminary view is that the reference in AASB 1.D16(a) to Australian Accounting Standards, when the first principal version of AASB 1 was issued in 2004, was intentional and limits the application of the paragraph to the circumstance where the parent entity has applied Australian Accounting Standards only. Staff note the 'double reference' to Australian Accounting Standards or IFRS Standards in other sections of AASB 1 was intentional. Further, Australian Accounting Standards are defined. Therefore, staff presume the omission of a reference to IFRS Standards in AASB 1.D16(a) was intentional.
38. However, staff can see merit in allowing a subsidiary to use the numbers included in the overseas parent entity's consolidated financial statements where the overseas parent has adopted IFRS Standards with an explicit and unreserved statement of compliance and their adoption of IFRS Standards would result in the same outcome as if the parent entity had adopted Australian Accounting Standards.
39. Paragraph 34 of the FP SSF outlines the circumstances in which the Board considers the need for Australian-specific Standards, amendments, guidance or examples. This includes when constituents raise the need with the Board. Paragraph 39(b) outlines that justifiable circumstances for Australian-specific Standards, amendments, guidance or examples include "an assessment indicates that the costs of preparing and disclosing information outweigh the benefits to users. Such considerations may arise from application issues due to unfamiliar terminology, current practice issues or replicating disclosures required by other existing legislation."
40. Paragraph 41(d) of the FP SSF explains that when considering whether an identified for-profit issue is so significant that Australian-specific Standards, amendments, guidance or examples are warranted, the Board considers, among other matters, the costs of the specific change relative to the benefits.

⁹ AASB 2020-2.BC126(b) (footnote 43).

¹⁰ 2,377 small foreign-controlled proprietary companies multiplied by the maximum extent of non-compliance with recognition and measurement requirements of 24% (AASB 2020-2.BC15).

¹¹ AASB 2020-2 paragraph BC126(b)

¹² Staff also intend to undertake targeted outreach to understand:

- (a) how frequently a subsidiary becomes a first-time adopter after its parent, including how frequently it occurs where an overseas parent is applying IFRS Standards;
- (b) whether/what current practice is (i.e. how is the requirement in AASB 1.D16(a) interpreted);
- (c) whether the issue is likely to be ongoing or whether it is likely to be limited to the first annual reporting period after removing SPFS.

Staff will provide Board members with a verbal update on this outreach at the September meeting.

41. Staff acknowledge that using the information included in the overseas parent entity's consolidated financial statements will reduce costs for subsidiary entity preparers. Further, suppose the application of AASB 1.D16(a) is amended and limited to IFRS Standards, where the adoption of IFRS Standards would result in the same outcome as if the parent entity had adopted Australian Accounting Standards. In that case, staff considers the objective of the exemption in AASB 1 would still be met (i.e., the exemption eliminates the need to keep two parallel sets of records which would be burdensome and not be beneficial to users, and the exemption will ease some practical problems. Also, the exemption does not diminish the relevance and reliability of the subsidiary's financial statements because it permits a measurement that is already accepted in accordance with IFRS Standards in the consolidated financial statements of the parent).¹³
42. Staff also note that if the Board wishes to consider a narrow-scope amendment to AASB 1, it would need to be made promptly. This is because affected entities are those required to transition from SPFS from 1 July 2021. Therefore, any amendments would ideally need to be effective for annual periods ending on or after 30 June 2022.¹⁴

Questions for Board members

- Q1 Do Board members agree with the preliminary staff view in paragraph 37 that view 1 is the intended application of the requirement in AASB 1.D16(a)?
- (a) If yes, do Board members agree with the staff view in paragraph 38 that a narrow-scope amendment to AASB 1.D16(a) to include a reference to IFRS Standards is warranted?
If not, what approach do Board members suggest?
 - (b) If Board members consider view 2 is the intended application, do Board members consider any further work is required?
If yes, what further work do Board members recommend be undertaken on this topic?

Issue 2 — application of AASB 1 by entities transitioning from single entity Tier 2 RDR to consolidated Tier 2 Simplified Disclosures

43. Issue 2 considers a different sub-set of entities affected by the removal of the reporting entity concept than those considered in Issue 1. Issue 2 considers the preparation of consolidated GPFS for the first time by entities that prepared unconsolidated Tier 2 RDR GPFS prior to 1 July 2021.
44. For example, SGE Australian parent entities that are preparing single entity Tier 2 RDR financial statements. These entities may have subsidiaries, however, they have elected not to prepare consolidated financial statements because the parent/group was not a reporting entity using the exception in AASB 10.AusCF4.2¹⁵ as it applied before 1 July 2021.
45. Whilst these entities were required to prepare GPFS under their SGE obligations, they maintained they were non-reporting entities and therefore did not prepare consolidated

¹³ IFRS 1 *First-time Adoption of International Financial Reporting Standards* Basis for Conclusions, paragraph BC62.

¹⁴ Staff note that this date is inconsistent with the application date of AASB 2020-2. However, the Board is unable to issue an Australian Accounting Standards where the effective date has already passed. Therefore, an application date of periods ending on or after 30 June 2022 is needed and would in substance cover the same group of affected entities as most entities with a reporting periods ending on or after 30 June 2022, would be expected to have a reporting period that began on or after 1 July 2021. Staff also note that an application date later than 30 June 2022 that was available for early adoption at 30 June 2022 may be suitable, although this is not the preferred option.

¹⁵ AASB 10.AusCF4.2 states “*Notwithstanding paragraphs 4(a), Aus4.1 and Aus4.2, in respect of AusCF entities, the ultimate Australian parent shall present consolidated financial statements that consolidate its investments in subsidiaries in accordance with this Standard when either the parent or the group is a reporting entity or both the parent and the group are reporting entities, except if the ultimate Australian parent is required, in accordance with paragraph 31 of this Standard, to measure all of its subsidiaries at fair value through profit or loss.*”

financial statements. Staff understand that this approach was acknowledged as an available option in the ATO guidance.¹⁶

46. Anecdotally, staff also understand that in some cases SGE entities may have been preparing two sets of financial statements:

- (a) audited SPFS that are lodged with ASIC, and
- (b) unaudited GPFS that are lodged with the ATO.

Where this is the case (i.e. two different sets of financial statements are being prepared), staff consider that because GPFS were being prepared the fact that SPFS were also being prepared is not relevant (i.e. the entity can't choose to transition as if they only prepared SPFS).

47. Further, whilst these entities would also benefit from being able to apply the exemption in AASB 1.D16(a) (see Issue 1), staff note that as these entities have technically complied with all relevant recognition and measurement requirements in Australian Accounting Standards, because they were not required to be consolidated by AASB 10, they are unable to apply AASB 1 when preparing consolidated GPFS for the first time from 1 July 2021.
48. AASB 1053.19B contemplates the 'reapplication' of Tier 2 (i.e., an entity has previously applied Tier 2 and is resuming the application of Tier 2 again). However, AASB 1 can only be applied where the most recent previous Tier 2 GPFS did not (among other requirements) contain an explicit and unreserved statement of compliance with Tier 2 and did not apply all relevant recognition and measurement requirements. Where the entity has previously applied all applicable recognition and measurement requirements, AASB 1 or the AASB 1 retrospective application of Australian Accounting Standards in accordance with AASB 108 cannot be applied.
49. Staff note that this matter was raised by a stakeholder (Deloitte) during the development of AASB 2020-2,¹⁷ and more recently during the development of *AASB 2021-1 Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*.¹⁸
50. During the development of AASB 2020-2, the Board considered whether the transitional relief provided to entities transitioning from unconsolidated SPFS to consolidated Tier 2 Simplified Disclosures should also be extended to entities transitioning from unconsolidated Tier 2 RDR to consolidated Tier 2 Simplified Disclosures.
51. When finalising AASB 2020-2, the Board decided that it would not be appropriate to extend the transition relief to allow unconsolidated Tier 2 RDR preparers transitioning to consolidated Tier 2 Simplified Disclosures to apply AASB 1 where they applied the exception in AASB 10.AusCFAus4.2. This was because the extent of the entities impacted was unknown. However, it was expected to be limited. The Board also expected that such entities should already have comprehensive IFRS-compliant information available to help produce consolidated financial statements, as the entity would be reporting that information to its parent. Further, entities currently preparing SPFS would be required to provide new additional disclosure as well as potential changes to recognition and measurement requirements, hence it could be argued that not having such other challenges would mean entities already preparing GPFS would have enough resources to retrospectively consolidate.¹⁹
52. In response to ED 306 (AASB 2021-1), Deloitte's feedback again noted there is no specific guidance provided under Australian Accounting Standards for entities in this situation (single

¹⁶ [ATO Guidance on providing general purpose financial statements](#), states an entity "... must give us a GPFS regardless of whether you are a reporting entity under Australian Accounting Standards." Example 3 also states that if "You are an Australian parent entity and you avail yourself of the exemptions provided under AASB 10. You can prepare a stand-alone GPFS in accordance with AASB 127."

¹⁷ [Deloitte comment letter in response to Exposure Draft ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#)

¹⁸ [Deloitte comment letter in response to Exposure Draft ED 306 Transition Between Tier 2 Frameworks for Not-for-Profit Entities](#).

entity Tier 2 RDR preparers transitioning to consolidated Tier 2 Simplified Disclosures). Therefore, Australian Accounting Standards could be read to require such entities to apply the consolidation requirements fully retrospectively. The feedback also suggested that 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. Further, the ability for comparative information to be retrospectively audited may also be problematic.

53. Staff note that both for-profit and not-for-profit (NFP) entities are affected by the replacement of Tier 2 RDR with Tier 2 Simplified Disclosures. However, this paper only considers the effect on for-profit entities. This is because the removal of SPFS does not affect NFP entities at this stage (i.e., NFP parent entities currently preparing single entity Tier 2 RDR financial statements, can continue to deem themselves to be non-reporting entities, apply the exemption in AASB 10.AusCFAus4.2 and prepare single entity Tier 2 Simplified Disclosure financial statements should they choose to).

How many entities may be affected?

54. From limited targeted outreach, staff has been unable to ascertain how many entities of the type referred to in paragraphs 43 and 44 may be affected. However, as noted in paragraph 51, the Board did not expect there to be many.
55. Staff will undertake further targeted outreach to understand how widespread this issue may be. Staff will provide Board members with a verbal update on this outreach at the September meeting.

Preliminary staff view and application of the FP SSF

56. Staffs' preliminary view is that, subject to quantifying how many SGE entities may be affected, there might be merit in extending the transition relief and allowing single entity Tier 2 RDR preparers transitioning to consolidated Tier 2 Simplified Disclosures to apply AASB 1 where they applied the exception in AASB 10.AusCFAus4.2 for consistency. Therefore, staff recommend a narrow-scope amendment to AASB 1053 (or another accounting Standard).
57. Staff do however wish to highlight that if a narrow-scope amendment is made, it would permit SGE entities to apply the transition relief available under AASB 1 and restate previously recognised amounts, even though the previous Tier 2 RDR financial statements complied with all recognition and measurement requirements, except for the consolidation requirements in AASB 10. For example, the entity could elect to use a previous fair value as deemed cost for certain assets.
58. However, staff note the ability of SGE entities to apply the transition relief in AASB 1 in full would be consistent with the relief available to entities transitioning to consolidated Tier 2 Simplified Disclosures from unconsolidated SPFS. That is, as previously considered by the Board, in circumstances where the SPFS complied with all recognition and measurement requirements except for the consolidation requirements in AASB 10 to apply AASB 1.²⁰
59. Whilst it is possible to limit the application of AASB 1 by SGE entities to certain requirements only (e.g. they could be permitted to apply AASB 1.D16(a) only), staff do not recommend this option. This is because AASB 1.D16(a) can only be applied where a subsidiary was owned by the parent at its date of transition. Therefore, for any entities acquired or incorporated after

²⁰ AASB 2020-2 makes an amendment to AASB 1053.18A to "explicitly state that entities would be able to apply either AASB 1 ... or AASB 108 for first-time adoption of GPFS where a parent entity ... did not prepare consolidated financial statements on the basis that neither the entity nor the consolidated entity was a reporting entity, and hence was not required by paragraph Aus4.2 to prepare consolidated financial statements where the entity was an ultimate Australian parent." The Board also noted that "that paragraph 18A(a) and 18A(b) of AASB 1053 as amended would permit an entity to apply the transition relief available under AASB 1, and thus potentially restate recognised amounts, even if the previous SPFS applied all the applicable R&M requirements of AAS, except for the consolidation requirements in AASB 10" AASB 2020-2.BC141 and AASB 2020-2.BC144.

the date the parent transitioned to IFRS Standards (subject to Board member agreement with question 1(a) above), the SGE entity would not be able to apply the relief.

60. Another possible option could be to limit the application of AASB 1 to AASB 1.D16(a) or Appendix C.²¹ Staff also do not recommend this option as it is not consistent with the relief available to entities transitioning from unconsolidated SPFS that complied with all recognition and measurement requirements except for the consolidation requirements in AASB 10 to consolidated Tier 2 Simplified Disclosures.
61. As noted in paragraph 39 above, paragraph 34 of the FP SSF outlines the circumstances in which the Board considers the need for Australian-specific Standards, amendments, guidance or examples, and paragraph 39(b) outlines the justifiable circumstances for Australian-specific Standards, amendments, guidance or examples.
62. Paragraphs 41(c) and (d) of the FP SSF explains that when considering whether an identified for-profit issue is so significant that Australian-specific Standards, amendments, guidance or examples are warranted, the Board considers, among other matters, whether a modification would increase or decrease internal consistency within Australian Accounting Standards as well as the costs of the specific change relative to the benefits.
63. Whilst staff acknowledge that the Board previously considered the matter, subsequent feedback is inconsistent with the Board's expectations when it finalised AASB 2020-2. For example, Deloitte noted in their submission on ED 306 that in their "*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.*"²²
64. Consistent with paragraph 42, if the Board considers a narrow-scope amendment is required to AASB 1053 (or another accounting Standard) to allow these entities to apply AASB 1, it would need to be made promptly.

Questions for Board members

- Q2 Do Board members agree with the staff view in paragraph 46 that if an entity prepared both GPFS and SPFS, because GPFS were being prepared the fact that SPFS were also being prepared is not relevant (i.e. the entity can't choose to transition as if they only prepared SPFS)? If not, what do Board members suggest?
- Q3 Do Board members agree with the preliminary staff view in paragraph 56 to make a narrow-scope amendment to AASB 1053 (or another Standard) to allow single entity Tier 2 RDR preparers transitioning to consolidated Tier 2 Simplified Disclosures to apply AASB 1 where they applied the exception in AASB 10.AusCFAus4.2?
- (a) If yes:
- (i) do Board members agree with the preliminary staff view that these entities should be able to apply AASB 1 in its entirety? Or
 - (ii) would Board members prefer their ability to apply AASB 1 was limited to certain requirements only?
If Board members prefer their application of AASB 1 is limited, which requirements do Board members suggest they should be able to apply?
- (b) If not, do Board members consider any further work is required?
- (i) If yes, what do work do Board members recommend be undertaken on this topic?

²¹ Appendix C outlines exemptions for Business Combinations.

²² [Deloitte comment letter in response to Exposure Draft ED 306](#).

Due process

65. Paragraph 6.5 of the [AASB Due Process Framework for Setting Standards](#) outlines that an Exposure Draft is generally issued with a 90-day comment period to ensure appropriate consultation. However, if it is narrow in scope and urgent, a comment period of no less than 30 days may be suitable.
66. As noted in paragraph 42, if the Board wishes to consider the narrow-scope amendments suggested in this staff paper, they would need to be made promptly. Staff, therefore, recommend a 60-day comment period. Staff consider 60-days is reasonable because:
- (a) the amendments are narrow in scope; and
 - (b) the amendments are urgent (i.e. the need to be available for application by 30 June 2022).

Questions for Board members

- Q4 Subject to Board member agreement with the staff recommendations in questions 1, 2 and 3, do Board members agree with the staff recommendation in paragraph 66 to issue an Exposure Draft with a 60-day comment period? If not, what do Board members suggest?

Possible next steps and timeline

67. Subject to Board member agreement with the recommendations in questions 1, 2 and 3, staff suggests the following timeline:

Possible next steps	Timing
Staff to conduct further target outreach as needed and draft a pre-ballot draft Exposure Draft.	For consideration by the Board at the November Board meeting.
Incorporating any feedback received from Board members at the November Board meeting, Staff will prepare a ballot draft Exposure Draft (for out-of-session approval via the Chair or subcommittee).	November.
Exposure Draft to be issued.	No later than 25 November 2021.
Comments on the Exposure Draft due (60-day comment period).	27 January 2022.
Staff to analyse any feedback received and discuss with the Board at the Q1 2022 Board meeting.	Q1/early Q2 2022.
Staff to prepare a ballot draft of an Amending Standard after incorporating any feedback from Stakeholders and Board members in Q1/early Q2 2022 for out-of-session approval via the Chair/a sub-committee.	Q1/early Q2 2022.

Questions for Board members

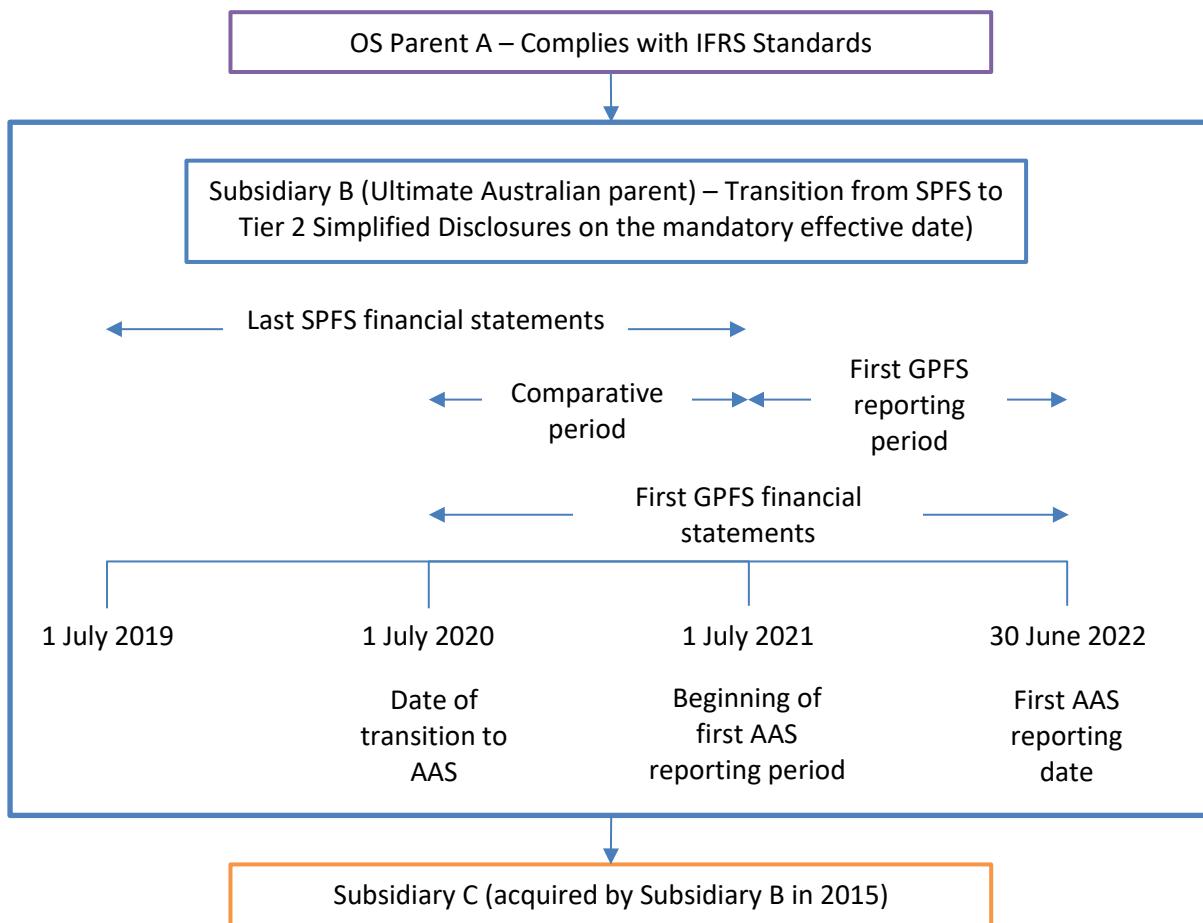
- Q5 Subject to earlier Board member decisions and feedback, do Board members have any additional comments on the suggested next steps and timeline?

Appendix A – high-level summary and comparison

68. Staff has prepared a high-level summary comparing the outcomes of applying the existing requirements of Australian Accounting Standards with the outcomes of applying Australian Accounting Standards if the narrow-scope amendments suggested in this staff paper are made.

Issue 1 — optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

69. If an entity transitions from SPFS to Tier 2 Simplified Disclosures on the mandatory effective date (i.e. 1 July 2021), the following is a summary of the first-time adoption of AASB 1 timeline:



70. The following is a comparison of the accounting outcomes of:

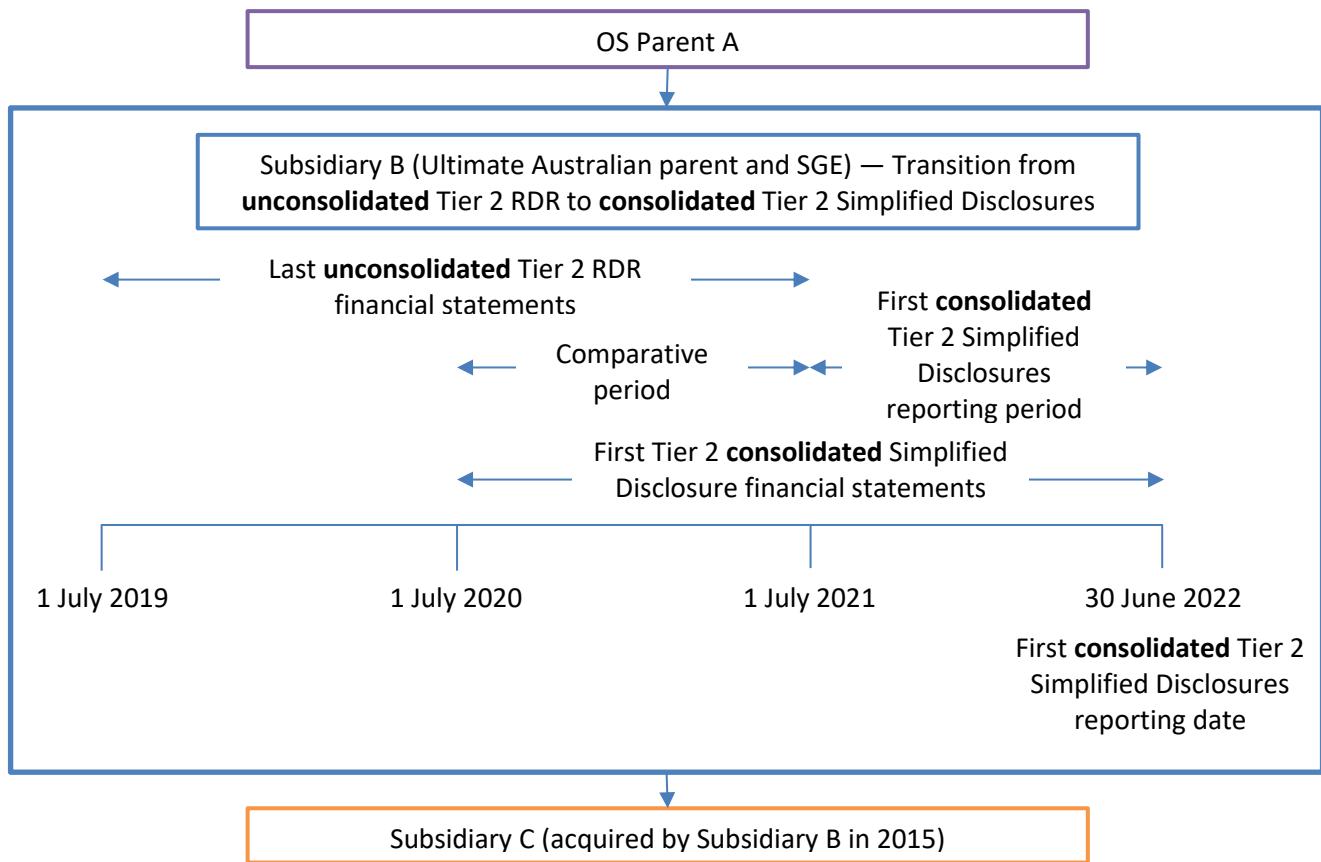
- View 1, where AASB 1.D16(a) only applies where OS Parent A has transitioned to Australian Accounting Standards; as compared to
- View 2, where AASB 1.D16(a) applies where OS Parent A has transitioned to either Australian Accounting Standards or IFRS Standards.

View 1 – AASB 1.D16(a) is limited to Australian Accounting Standards compliance only	View 2 – AASB 1.D16(a) includes compliance with AAS and IFRS Standards
<p>OS Parent A complies with IFRS Standards, therefore Subsidiary B is not able to apply AASB 1.D16(a).</p> <p>Instead, Subsidiary B is required to measure all of its assets or liabilities based on its own date of transition to Australian Accounting Standards (1 July 2020).</p>	<p>The carrying amounts of Subsidiary B's assets and liabilities are the same in its Australian Accounting Standards opening statement of financial position (1 July 2020) and OS Parent A's consolidated financial statements (except for adjustments for consolidation procedures and other differences such as some hedge accounting differences).</p>

View 1 – AASB 1.D16(a) is limited to Australian Accounting Standards compliance only	View 2 – AASB 1.D16(a) includes compliance with AAS and IFRS Standards
<p>In principle, this would require Subsidiary B to:</p> <ul style="list-style-type: none"> - select accounting policies using the Australian Accounting Standards effective at 30 June 2022. Subsidiary B cannot apply a previous version of an Australian Accounting Standards that was effective at an earlier date. - apply the selected accounting policies from the date of transition (1 July 2020). This requires Subsidiary B to apply each Australian Accounting Standard effective at 30 June 2022 fully retrospectively, after considering the optional and mandatory exemptions from retrospective application in AASB 1. - consider the requirements of Appendix C and decide whether or not to restate (retrospectively adjust for) the acquisition of Subsidiary C as the business combination occurred prior to Subsidiary B's date of transition to Australian Accounting Standards (1 July 2020). <p>However, this does not affect the carrying amounts recognised in OS Parent A's consolidated financial statements (i.e. there will be two sets of records for Subsidiary B).</p>	

Issue 2 — application of AASB 1 by entities transitioning from single entity Tier 2 RDR to consolidated Tier 2 Simplified Disclosures

71. If an entity transitions from unconsolidated Tier 2 RDR to consolidated Tier 2 Simplified Disclosures on the mandatory effective date (i.e. from 1 July 2021), the following is a summary of the AASB 10 timeline:



72. The following is a comparison of the accounting outcomes where Subsidiary B:

- (a) is not permitted to apply AASB 1; as compared to
- (b) is permitted to apply AASB 1:

Subsidiary B is not permitted to apply AASB 1	Subsidiary B is permitted to apply AASB 1
<p>There is no clear guidance in Australian Accounting Standards to address such a situation.</p> <p>Staff note that AASB 10.C2 states that an entity shall apply AASB 10 retrospectively, with some important exceptions.²³ Broadly, the exceptions relate to circumstances where control conclusions differ between AASB 10 and its predecessor AASB 127 <i>Consolidated and Separate Financial Statements</i> (2008).</p>	<p>As Subsidiary B is permitted to apply AASB 1, it could (subject to Board decisions in relation to Question 1 above) apply AASB 1.D16(a). Alternatively Subsidiary B could apply Appendix C which would permit Subsidiary B to decide whether or not to restate (retrospectively adjust for) the acquisition of Subsidiary C as the business combination occurred prior to Subsidiary B's date of transition to Australian Accounting Standards (1 July 2020).</p>

²³ “An entity shall apply this Standard retrospectively, in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, except as specified in paragraphs C2A–C6.” AASB 10.C2

Subsidiary B is 1 is not permitted to apply AASB 1	Subsidiary B is 1 is permitted to apply AASB 1
<p>Any adjustments required on transition to AASB 10 are made at the date of initial application, which in accordance with AASB 10.C2B is the beginning of the annual reporting period for which AASB 10 is applied for the first time.</p> <p>However, this will not be 1 July 2021 as Subsidiary B has technically applied AASB 10 in prior periods in order to apply the exemption in AASB 10.AusCFAus4.2 (or AASB 10.Aus4.2 as it applied prior to 1 January 2020) and prepare unconsolidated financial statements.</p> <p>Additionally, when AASB 10 was first issued, staff note that if there was no change to the consolidation conclusion (e.g. an investee was consolidated under AASB 127 or <i>Interpretation 112 Consolidation – Special Purpose Entities</i>, and remained consolidated under AASB 10) there were no changes to the accounting for that investee. Therefore, no transition provisions were needed. However, if there were changes to consolidation conclusions, the transition provisions in AASB 10 were applied.</p> <p>However, in this case, it is unclear whether/when control conclusions would differ as Subsidiary B was preparing unconsolidated financial statements as it was applying the exemption in AASB 10, not because it did not consider it had control over Subsidiary C.</p> <p>As such it is possible that Subsidiary B would be required to apply AASB 10 fully retrospectively and the effect on comparative information is also unclear.</p> <p>As there is no clear guidance diversity in practice may arise (e.g. some entities may apply the AASB 1 to the transition by analogy, some entities may retrospectively apply AASB 10 and some entities may adopt another policy).</p> <p>However, staff consider that if Subsidiary B was required to retrospectively consolidate it may be costly for little additional benefit. Further, staff understand that Subsidiary B may not always have access to the necessary historical information and that this will also create audit issues.</p>	