

AASB Exposure Draft

ED 315
November 2021

Extending Transition Relief under AASB 1

Comments to the AASB by 27 January 2022



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 27 January 2022.

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) 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@aaab.gov.au

Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

Exposure Drafts

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

For periods beginning on or after 1 July 2021, certain for-profit-private sector entities can no longer apply the reporting entity concept or prepare special purpose financial statements (SPFS) when the financial statements are required to comply with Australian Accounting Standards or when legislation requires the financial statements to comply with accounting standards. This follows 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 within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). Some of these entities may also be required to prepare consolidated financial statements for the first time, if they historically applied the exemption in AASB 10 *Consolidated Financial Statements* that did not require the presentation of consolidated financial statements when neither the parent entity nor the group was a reporting entity.

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

One subset of entities affected by the removal of SPFS is foreign-controlled proprietary companies. Historically, many of these entities have prepared SPFS. However, they are required to prepare GPFS for the first time for periods beginning on or after 1 July 2021. In many cases, these entities are subsidiaries of an overseas parent that prepares consolidated financial statements that include information about the entity and comply with International Financial Reporting Standards (IFRS Standards).

The Board noted that AASB 1 *First-time Adoption of Australian Accounting Standards* contains an optional exemption that permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. However, the exemption is currently available under AASB 1 only where the entity's parent has adopted Australian Accounting Standards and cannot be applied where the parent instead adopted IFRS Standards.

The Board received feedback from stakeholders that being able to use the information included in their overseas parent's IFRS Standards-compliant financial statements when preparing GPFS for the first time would provide a less costly approach to the transition of such subsidiaries to GPFS while supporting high-quality financial reporting by the subsidiary.

Therefore, the Board decided to propose an amendment to AASB 1 to allow subsidiaries to apply the exemption in AASB 1 where their parent has adopted either Australian Accounting Standards or IFRS Standards. The exemption is available to for-profit private sector entities affected by AASB 2020-2 as well as to other for-profit entities and not-for-profit entities.

Entities transitioning to consolidated Tier 2 Simplified Disclosures financial statements

Another subset of entities affected by the removal of the reporting entity concept is entities that were preparing unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements). That is, the GPFS complied with all the recognition

and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements, in accordance with an exemption in AASB 10. This includes some Significant Global Entities (SGEs).

SGEs are required to prepare GPFS to comply with their SGE obligations to the Australian Taxation Office (ATO). However, some SGEs maintained they were non-reporting entities and therefore, if a parent entity, continued to apply the exemption in AASB 10 that did not require the presentation of consolidated financial statements if neither the parent entity nor the group was a reporting entity. The Board understands that this approach was acknowledged as an available option in ATO guidance.

However, as the 'reporting entity' definition in Australian Accounting Standards no longer applies to certain for-profit private sector entities, including SGEs, for periods beginning on or after 1 July 2021, these entities can no longer apply the consolidation exemption in AASB 10. Instead, they will be required to prepare consolidated financial statements for the first time.

As outlined above, these entities were not required to present consolidated financial statements in prior periods, so their most recent Tier 2 GPFS complied with all relevant recognition and measurement requirements in Australian Accounting Standards. Therefore, these entities are not permitted to apply AASB 1 when preparing consolidated GPFS for the first time for periods beginning on or after 1 July 2021.

However, the Board noted that AASB 1053 (paragraph 18A(b)) allows entities that were preparing SPFS on the same basis – that is, their SPFS complied with all the recognition and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity – to apply AASB 1, including the relief for the first-time preparation of consolidated financial statements set out in Appendix C, to their transition to Tier 2 GPFS.

Therefore, the Board decided to propose extending the transition relief to also allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.

What we are proposing

This Exposure Draft proposes amendments to:

- (a) AASB 1 – to allow a subsidiary preparing 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 or IFRS Standards; and
- (b) AASB 1053 – to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.

Application date

It is proposed that the amendments would apply to annual periods ending on or after 30 June 2022, with earlier application permitted.

What happens next

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

Comments are invited on any of the proposals in this Exposure Draft by 27 January 2022. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Specific matters for comment

The AASB would particularly value comments on the following:

1. Do you agree with the proposed amendments to AASB 1 and AASB 1053? If you disagree, please explain why.
2. Do you think any unintended consequences might arise from the proposed amendments? If yes, please explain what they are.
3. Do you have any other comments on the proposals?

General matters for comment

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

4. 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?
5. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?
6. Whether the proposals create any auditing or assurance challenges?
7. Whether, overall, the proposals would result in financial statements that would be useful to users?
8. Whether the proposals are in the best interests of the Australian economy?
9. 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 2022-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – EXTENDING TRANSITION
RELIEF UNDER AASB 1**

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[DRAFT] BASIS FOR CONCLUSIONS

[Draft] Australian Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2022-X

This [draft] Standard makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015) and AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010).

Main features of this Standard

Main requirements

This Exposure Draft proposes amendments to:

- (a) AASB 1 – to allow a subsidiary preparing general purpose financial statements 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 or International Financial Reporting Standards (IFRS Standards); and
- (b) AASB 1053 – to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.

Application date

This [draft] Standard applies to annual periods ending on or after ... [30 June 2022], with earlier application permitted.

[Draft] Accounting Standard AASB 2022-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2022-X Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1

Objective

- 1 This Standard amends:
- (a) AASB 1 *First-time Adoption of Australian Accounting Standards*, to allow a subsidiary preparing general purpose financial statements 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 or International Financial Reporting Standards (IFRS Standards); and
 - (b) AASB 1053 *Application of Tiers of Australian Accounting Standards*, to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements general purpose financial statements to consolidated Tier 2 – Simplified Disclosures general purpose financial statements to apply AASB 1 when preparing consolidated financial statements for the first time.

Application

- 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 ending on or after ... [30 June 2022]. This Standard may be applied to annual periods ending before ... [30 June 2022].
- 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 new text underlined.

Amendments to AASB 1

- 5 Paragraph D16 is amended. New text is underlined.
- D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, 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 or IFRSs, 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 ...

Amendments to AASB 1053

- 6 Paragraph 20A and a related heading are added after paragraph 20.

Reapplication of Tier 2 Reporting Requirements other than Transitioning between Tiers

20A A for-profit private sector entity that:

- (a)** prepared its most recent previous annual financial statements in compliance with Tier 2 reporting requirements, including an explicit and unreserved statement of compliance with Tier 2 reporting requirements;
- (b)** did not present consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity (as defined in AASB 1057); and
- (c)** is preparing consolidated financial statements for the first time in compliance with Tier 2 – Simplified Disclosures;

shall apply either:

- (d)** all the relevant requirements of AASB 1; or
- (e)** Tier 2 reporting requirements directly using the requirements in AASB 108.

Commencement of the legislative instrument

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2022-X Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1.

Introduction

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

BC2 For periods beginning on or after 1 July 2021, certain for-profit-private sector entities can no longer apply the reporting entity concept or prepare special purpose financial statements (SPFS) when the financial statements are required to comply with Australian Accounting Standards or when legislation requires the financial statements to comply with accounting standards. This follows 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 within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). In addition, some of these entities may also be required to prepare consolidated financial statements for the first time if they historically applied the exemption in AASB 10 *Consolidated Financial Statements* that did not require the presentation of consolidated financial statements when neither the parent entity nor the group was a reporting entity.

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

BC3 One subset of entities affected by the removal of special purpose financial statements (SPFS) is foreign-controlled proprietary companies. Historically, many of these entities have prepared SPFS. However, they are required to prepare GPFS for the first time for periods beginning on or after 1 July 2021.

BC4 When preparing their SPFS, these entities may or may not have complied with the recognition and measurement requirements in Australian Accounting Standards and may or may not have presented consolidated financial statements.

BC5 AASB 1053 *Application of Tiers of Australian Accounting Standards* provides transition relief for entities transitioning from SPFS to Tier 2 GPFS. The transition relief allows entities to apply either AASB 1 *First-time Adoption of Australian Accounting Standards* or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to the transition.

BC6 In principle, AASB 1 requires the retrospective application of all Australian Accounting Standards on transition to Australian Accounting Standards. However, AASB 1 establishes two categories of exceptions to this principle:

- (a) mandatory exceptions that prohibit the retrospective application of some aspects of other Australian Accounting Standards; and
- (b) optional exemptions from some requirements of other Australian Accounting Standards.

BC7 AASB 1 paragraph D16(a) contains an optional exemption that permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent’s consolidated financial statements. However, the exemption in paragraph D16(a) can only be applied where a parent entity has adopted Australian Accounting Standards and not where a parent entity has adopted IFRS Standards. This is the case even where compliance with IFRS Standards by the parent entity would result in the same outcome as compliance with Australian Accounting Standards.

BC8 In many cases, affected foreign-controlled proprietary entities are subsidiaries of an overseas parent that prepares consolidated financial statements that include information about the entity and comply with IFRS Standards.

- BC9 The Board received feedback from stakeholders that being able to use the information included in their overseas parent’s IFRS Standards-compliant consolidated financial statements when preparing GPFS for the first time would provide a less costly approach to the transition of such subsidiaries to GPFS. For example:
- (a) the entity would not need to remeasure its assets and liabilities at its date of transition to Australian Accounting Standards;
 - (b) the entity would not need to apply AASB 1 to any historical business combinations; and
 - (c) the entity would not need to apply Australian Accounting Standards retrospectively where required by certain Australian Accounting Standards (e.g. AASB 16 *Leases*, if a modified retrospective approach to transition is adopted).
- Instead, the entity would use the information already included in the overseas parent’s consolidated financial statements.
- BC10 Further, in many cases, it is expected that IFRS Standards-compliant information for the entity is already being prepared and possibly audited to assist the overseas parent in preparing its consolidated financial statements. If prepared, this information would be based on the parent’s date of transition to IFRS Standards. Using this information would mean the entity would not be required to keep two sets of records – one based on the parent entity’s date of transition to IFRS Standards for consolidation purposes and another based on the entity’s date of transition to Australian Accounting Standards for its own reporting purposes.
- BC11 The Board observed that when the International Accounting Standards Board (IASB) included the optional exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the objective of the exemption was to eliminate the need for subsidiaries to keep two parallel sets of records, which would be burdensome and not beneficial to users. The exemption was also expected to ease some practical problems associated with the transition to IFRS Standards. The IASB was also of the view that the exemption would not diminish the relevance and reliability of the subsidiary’s financial statements because it permits a measurement that is already acceptable in accordance with IFRS Standards in the consolidated financial statements of the parent.¹
- BC12 The Board considered that the objective of the exemption would still be met if the application of AASB 1 paragraph D16(a) was extended to include circumstances where an overseas parent has adopted IFRS Standards. Therefore, the Board decided to propose an amendment to AASB 1 to allow Australian entities to apply the exemption in AASB 1 paragraph D16(a) where their parent has adopted either Australian Accounting Standards or IFRS Standards.

Scope

- BC13 Although the Board’s initial consideration of when the optional exemption could be applied (i.e. whether the exemption could be applied where a parent had adopted IFRS Standards, instead of Australian Accounting Standards) was in the context of entities transitioning from SPFS following the issue of AASB 2020-2, the scope of the proposed amendment is not limited to for-profit private sector entities. This is because the exemption in paragraph D16(a) can be applied by any for-profit entity or not-for-profit entity that becomes a first-time adopter of Australian Accounting Standards later than its parent (subject to meeting the conditions of the exemption). The objective of the optional exemption as outlined in paragraph BC11 applies equally to all types of entities.

Entities transitioning to consolidated Tier 2 Simplified Disclosures financial statements

- BC14 Another subset of entities affected by the removal of the reporting entity concept is entities that were preparing unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements). That is, the GPFS complied with all the recognition and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements, in accordance with an exemption in AASB 10. This includes some Significant Global Entities (SGEs).
- BC15 SGEs are required to prepare GPFS to comply with their SGE reporting obligations to the Australian Taxation Office (ATO). However, some SGEs that are parent entities maintained they were non-reporting entities and continued to apply the exemption in AASB 10 that did not require the presentation of consolidated financial statements if neither the parent entity nor the group was a reporting entity. The Board understands that this approach was acknowledged as an available option in ATO guidance.

¹ IFRS 1 Basis for Conclusions, paragraphs BC59–BC62.

- BC16 However, as the ‘reporting entity’ definition in Australian Accounting Standards no longer applies to certain for-profit private sector entities, including SGEs, for periods beginning on or after 1 July 2021, these entities can no longer apply the consolidation exemption in AASB 10. Instead, they will be required to prepare consolidated financial statements for the first time.
- BC17 As these entities were not required to present consolidated financial statements in prior periods as outlined in paragraph BC15, their most recent Tier 2 GPFS complied with all relevant recognition and measurement requirements in Australian Accounting Standards. Therefore, these entities are not permitted to apply AASB 1 when preparing consolidated GPFS for the first time for periods beginning on or after 1 July 2021.
- BC18 However, the Board noted that AASB 1053 (paragraph 18A(b)) allows entities that were preparing SPFS on the same basis – that is, their SPFS complied with all the recognition and measurement requirements without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity – to apply AASB 1, including the relief for the first-time preparation of consolidated financial statements set out in Appendix C, to their transition to Tier 2 GPFS.
- BC19 The Board previously considered whether the transitional relief in paragraph 18A(b) should also be extended to entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS. However, when finalising AASB 2020-2, the Board decided that it would not be appropriate to extend the transition relief at that time as the extent to which entities would be affected was unknown, although it was expected to be limited. Furthermore:
- (a) the Board 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; and
 - (b) entities that were preparing SPFS instead would be required to provide new additional disclosures as well as potential changes to recognition and measurement requirements, and hence it could be argued that not having such other challenges would mean entities already preparing GPFS would have enough resources to consolidate retrospectively.²
- BC20 Following the issue of AASB 2020-2, the Board received feedback from stakeholders expressing concern that as entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS are unable to apply AASB 1, there is no specific guidance in Australian Accounting Standards to explain the basis on which their first consolidated financial statements should be prepared. Therefore, Australian Accounting Standards could be read to require such entities to apply the consolidation requirements fully retrospectively. Stakeholders were concerned about this, based on their view that many of these entities do not have sufficient information to retrospectively consolidate as information might be prepared at a higher group level that is not relevant at the level of the ultimate Australian parent entity. Further, stakeholders were also concerned about the ability for comparative information to be audited retrospectively.
- BC21 Although the Board previously considered this matter as noted in paragraph BC19, as the subsequent feedback is inconsistent with the Board’s expectations, the Board decided to propose extending the transition relief to also allow entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.
- BC22 The Board acknowledged that proposing this transition relief would allow entities to potentially restate previously recognised amounts in accordance with AASB 1, even though the previous Tier 2 – Reduced Disclosure Requirements GPFS complied with all recognition and measurement requirements without presenting consolidated financial statements. However, the Board noted that this outcome is consistent with the application of the relief available in AASB 1053 paragraph 18A(b) for entities that were preparing SPFS on the same basis (i.e. their SPFS complied with all the recognition and measurement requirements, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity).

Scope

- BC23 Although both for-profit and not-for-profit (NFP) entities are affected by the replacement of Tier 2 – Reduced Disclosure Requirements with Tier 2 – Simplified Disclosures, NFP entities are not affected by the removal of SPFS and the reporting entity definition in Australian Accounting Standards at this stage. Therefore, NFP entities can continue to consider themselves to be non-reporting entities and prepare single entity Tier 2 – Simplified Disclosure GPFS, applying the exemption in AASB 10 if relevant.

² AASB 2020-2 paragraph BC142

BC24 For this reason, the Board decided the Tier 2 transition relief proposed in this Exposure Draft should be consistent with the scope of AASB 2020-2 and should therefore be limited to certain for-profit private sector entities.

Effective date

BC25 The Board confirmed that, consistent with the effective date of AASB 2020-2 for most entities, the proposals should be effective for annual periods ending on or after 30 June 2022.