



Key facts: AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

What is changing?

- From 1 July 2021, **the for-profit private sector entities listed below** (see 'who is affected') will no longer be able to self-assess financial reporting requirements and prepare special purpose financial statements (SPFS).
- They will prepare, as a minimum, Tier 2 general purpose financial statements (GPFS) that comply with all recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS). To reduce any transition burden, the AASB has issued:
 - a new Tier 2 GPFS framework – see AASB 1060 [General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities](#), based on IFRS for SMEs with less disclosures than the current Tier 2 GPFS framework.
 - transitional relief, including relief from restating comparative information, for entities that choose to early adopt the requirements (ie. before 1 July 2021).

Why did we do this?

To create a simple, objective, consistent, comparable, transparent and enforceable financial reporting framework

- SPFS is a longstanding area of concern to the AASB and other regulators:
 - SPFS lack transparency, consistency, comparability, enforceability;
 - not simple or objective to determine reporting requirements under current reporting framework;
 - increased risk for directors and auditors due to subjective nature of self-assessment of reporting requirements;
 - evidence of non-compliance with SAC 1 *Definition of the Reporting Entity* and RG 85 *Reporting requirements for non-reporting entities*;
 - evidence that users exist and that they want comparability of recognition and measurement;
 - scrutiny in public enquiries, including those for tax avoidance and the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the regulation of auditing in Australia.
- New IASB *Conceptual Framework for Financial Reporting* has a different reporting entity concept to SAC 1 → 'reporting entity clash'.
- The increase in large proprietary thresholds target reporting requirements to entities with economic significance → these entities should not be preparing SPFS.

Who is affected?

For-profit companies preparing financial statements under the *Corporations Act 2001*, principally:

- large proprietary companies (including grandfathered companies);
- unlisted public companies;
- small foreign-controlled companies;
- financial services licensees; and
- small proprietary companies with crowd-sourced funding.

Other for-profit:

- private sector entities required by legislation to prepare financial statements that comply with either AAS or accounting standards (e.g. co-operatives and incorporated associations and higher education providers);
- entities whose constituting document or another document requires the preparation of financial statements that comply with AAS, **IF** created or amended in any way, on or after 1 July 2021 (e.g. private sector trusts, partnerships, self-managed superannuation funds and joint arrangements); and
- entities (both private and public sector) that elect to prepare GPFS (e.g. for-profit public sector entities or other for-profit private sector entities).

Based on the AASB's research,¹ approximately 7,295 entities lodging financial statements with ASIC would be affected, after the increase in the large proprietary thresholds. In addition, there is a small number of grandfathered large proprietary companies and entities with other legislative requirements that may also be affected, however the AASB was not able to quantify exactly how many.

¹ [AASB Research Report No. 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements](#)

This AASB key facts summary has been prepared by the staff of the AASB for information purposes only and is not authoritative. This document has not been reviewed or approved by the AASB.

Last updated: **April 2022**

© Australian Accounting Standards Board 2022



Who is not affected?

- ✘ Small proprietary companies (unless foreign controlled);
- ✘ Not-for-profit entities as their financial reporting framework will be considered via separate targeted consultations;
- ✘ For-profit public sector entities (unless they elect otherwise);
- ✘ Entities whose constituting document or another document requires the preparation of financial statements that comply with AAS if created or amended before 1 July 2021 (such as trusts);
- ✘ Entities preparing:
 - financial statements that give a true and fair view without reference to compliance with AAS or accounting standards such as gaming venue operators or internet gaming licensees; or
 - financial information but not required to prepare financial statements as defined in paragraph 10 of AASB 101 *Presentation of Financial Statements* such as friendly societies, superannuation funds, retirement villages, incorporated associations, housing societies; and
- ✘ Entities required only by their constituting or other document to prepare financial statements that comply with “accounting standards”, “generally accepted accounting practices or principles” or other terminology that is not specifically AAS.

Due to the fact that there is likely to be a number of for-profit entities that will continue to be able to prepare SPFS in compliance with AAS, the Board decided that SPFS that refer to AAS should include disclosures that inform users of the basis upon which they were prepared. This includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in Australian Accounting Standards. This is to address the lack of transparency in SPFS that continue to refer to AAS. This will be addressed as part of a separate project.

Transitional relief

- Transitional relief in addition to the existing relief currently available in AASB 1 or AASB 10, is available where an entity elects to early adopt AASB 2020-2. The additional relief in AASB 2020-2:
 - provides relief from restating comparative information in the year of transition;
 - provides relief for entities that have complied with all R&M requirements in previous SPFS from presenting comparative information for those disclosures that they had not previously made; and
 - changes the date of transition to the beginning of the reporting period, rather than the beginning of the earliest comparative period.
- AASB 2020-2 also does not require an entity to distinguish the correction of prior period errors from changes in accounting policies in the year of transition, provided an entity adopts the Standard no later than the first year it becomes mandatory (ie a period beginning prior to 1 July 2022).

| | 30 June 2021 [#] year end | | 31 December 2021 [#] year end | | 30 June 2022 / 31 December 2022 | 30 June 2023 onwards |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| | <i>Current period</i> | <i>Comparative period (SPFS & not restated)</i> | <i>Current period</i> | <i>Comparative period (SPFS & not restated)</i> | | |
| Statement of financial position (SOPF) | 30/06/2021 | 30/06/2020* | 31/12/2021 | 31/12/2020* | The short-term exemption from restating comparatives no longer applies. | Transitional relief is no longer available. |
| Statement of profit of loss and OCI (P&L) | 30/06/2021 | 30/06/2020* | 31/12/2021 | 31/12/2020* | | |
| Notes to the financial statements | <ul style="list-style-type: none"> • Explanation of transition from SPFS to GPFS • Reconciliation of equity from the latest SPFS to the adjusted opening balances (quantification required) • Description of major adjustments that would have been required to make comparative SOPF compliant with AAS (no quantification needed) • Comparatives not restated, if new disclosures in current year then no comparatives | | | | However, relief from distinguishing prior period errors from changes in accounting policies remains available. | |

[#] The relief is also available for 30 June 2020 and 31 December 2020 year ends.

* This information is taken from the entity's most recent SPFS (and therefore may not comply with AAS).



Amendments resulting from feedback to ED 297

ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*, was issued in August 2019, together with ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, with comment periods ending on 30 November 2019.

Extensive outreach was conducted on the proposals, including roundtables in Melbourne, Sydney, Brisbane, Perth and Adelaide, attended by 73 stakeholders, a webinar with 147 participants, as well as separate consultations with the AASB's User Advisory Committee, credit analysts and private equity investors.

The Board received 19 formal submissions on ED 297 from stakeholders representing professional services firms, regulators, professional bodies, academics, preparers, software providers and others.

The following table summarises the amendments made to ED 297 in response to stakeholders' feedback. Feedback on ED 295 is summarised in [Key facts: AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities](#).

| ED 297 proposals | Feedback | The Board's response |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Effective date Proposed effective date was 1 July 2020.</p> | <p>There was strong feedback supporting the deferral of the application date, especially as the impact from transition to first time consolidation is unknown.</p> | <p>➤ The Board extended the effective date by one year to 1 July 2021.</p> |
| <p>Transitional relief</p> <ul style="list-style-type: none"> ➤ Relief from restating comparatives for entities in the year of transition where they had not previously complied with R&M requirements. ➤ The comparative primary statements were a mix of SPFS and restated GPFS information. | <p>Feedback suggested:</p> <ul style="list-style-type: none"> ➤ transitional relief should be available to all entities regardless of whether the previously issued SPFS complied with all R&M requirements. ➤ relief should be available where entities had not previously provided disclosures that are required under the GPFS Tier 2 framework. ➤ inconsistent presentation of comparative information might be confusing to users. ➤ it was not clear whether an entity would be able to apply the transitional relief if it had previously stated compliance with R&M incorrectly. | <ul style="list-style-type: none"> ➤ Transitional relief from restating comparative information: <ul style="list-style-type: none"> ○ is only available to entities which elect to early adopt due to the deferred effective date. ○ is extended to entities that have previously prepared SPFS and complied with R&M requirements. These entities do not need to present comparative information for those disclosures that they had not previously made. ○ requires entities to disclose the comparative period statement of financial position (unadjusted) as per their latest SPFS (consistent with presentation of the statement of profit or loss, other primary financial statements and the notes); and ○ requires entities to disclose a reconciliation of equity from the latest SPFS to the adjusted opening balances. ➤ As a practical expedient, entities transitioning to GPFS are not required to distinguish the correction of prior period errors from changes in accounting policies in the year of transition, provided the entity adopts the standard in a period beginning prior to 1 July 2022. |
| <p>Scope No additional disclosures in SPFS in respect of compliance with R&M required before transition</p> | | <ul style="list-style-type: none"> ➤ As for-profit private sector entities required only by a constituting or other document to prepare financial statements that comply with AAS can continue to prepare SPFS (where the document was created before 1 July 2021 and not amended on or after that date), the financial statements will be required to include disclosures that inform users of the basis upon which they were prepared. This includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the R&M, consolidation and equity accounting requirements in AAS. |
| <p>Entities that voluntarily elect to prepare GPFS could apply either conceptual framework</p> | <p>Views were mixed regarding the application of more than one conceptual framework when voluntarily preparing GPFS.</p> | <ul style="list-style-type: none"> ➤ Entities not required by legislation, constituting or other documents or for-profit public sector entities, which voluntarily prepare GPFS are required to apply the revised Conceptual Framework for Financial Reporting. |



Other key issues considered

The following table summarises the key issues raised by stakeholders where the Board decided not to make changes to ED 297.

| ED 297 proposals | Feedback | The Board's response |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Entities with a non-legislative requirement to comply with AAS were exempt from the scope of the proposals provided they did not amend their constituting or other document on or after 1 July 2021. | Feedback regarding the exemption proposed in ED 297 was mixed. Respondents suggested alternatives including: <ul style="list-style-type: none"> ➤ A sunset on the exemption; ➤ A permanent exemption; ➤ No exemption; and ➤ More objective criteria for the exemption. | The Board decided to retain the exemption as proposed in ED 297. To address the lack of transparency in SPFS that continue to refer to AAS, the Board also decided that these entities should be required to disclose a statement of compliance, or otherwise, with the R&M requirements in AAS (including requirements set out in AASB 10 <i>Consolidated Financial Statements</i> or AASB 128 <i>Investments in Associates and Joint Ventures</i>) in their SPFS. This will be addressed as part of a separate project. |
| ED 297 proposals proceed independently of the project contemplating the definition of Not-for-Profit (NFP) entity. | Certainty over what the revised NFP entity definition is, is necessary before implementing the proposals in ED 297, so that entities have clarity as to which financial reporting framework (ie for-profit or NFP) they would fall into prior to being potentially required to transition to GPFS. | The Board decided it was not necessary to delay this project until the finalisation of the NFP entity definition as the effective date of transition would only be when the NFP Framework is determined. The Board will consider what, if any, transitional relief needs to be made available to those NFP entities that become for-profit entities after 1 July 2021 as part of the NFP entity definition project. |
| Grandfathered large proprietary companies were within the scope of ED 297. | Some respondents commented that grandfathered large proprietary companies should be excluded from the scope of ED 297 as they exempt from lodging financial statements with ASIC. Other respondents noted that these entities should not have any exemption, ie they should prepare and lodge GPFS if they meet the threshold for a large proprietary company. | As grandfathered large proprietary companies are only exempt from lodgement and not the requirement to prepare financial statements in accordance with accounting standards the Board decided no change to the scope was required. Further, these companies should already comply with ASIC RG 85 <i>Reporting requirements for non-reporting entities</i> (and therefore with R&M requirements anyway). The Board noted that addressing the lodgement requirement is not within the AASB's remit. |
| Australian Financial Services licence holders were within the scope of ED 297. | There is a discrepancy between the financial reporting requirements of ASIC, the <i>Corporations Act 2001</i> and the proposals in ED 297 and ED 295. Feedback suggested that if the intention of the proposals is to increase the reporting obligations attaching to an AFSL, the appropriate place for this to be reflected is within the <i>Corporations Act 2001</i> via an amendment and not indirectly via the application of the new Standard. | The Board made no changes. Any changes to ASIC requirements attaching to an AFSL are for ASIC to consider and not the AASB. |
| Wholly owned subsidiaries subject to the <i>Corporations Act 2001</i> were within the scope of ED 297. | The consideration of users of the financial statements of subsidiaries was too narrow, and a broader cross section of potential users should be considered before determining the best approach to presenting financial information about subsidiaries (ie wholly owned Australian subsidiaries of listed entities with no external borrowings have a limited user base and therefore additional disclosure requirements would be a burden). | The Board made no changes. AASB Research Report No. 13 Parent, Subsidiary and Group Financial Reporting and feedback from financial statement users and members of the User Advisory Committee indicated that subsidiary financial statements have users other than lending entities and that subsidiary financial statements are necessary. |

Consultations prior to issuing this Standard

Prior to finalising this amending Standard, in addition to the consultation on ED 297 noted above, the AASB sought feedback through various other public consultations, targeted outreach and other outreach events including:

- more than 250 formal meetings with key stakeholders;
- 33 formal comment letters in response to Invitation to Comment ITC 39 Consultation Paper - *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problem*; and
- 37 user and 49 preparer responses received via targeted user and preparer surveys.