



<b>Project:</b>	<b>Subsidiaries without public accountability</b>	<b>Meeting:</b>	M194
<b>Topic:</b>	<b>Consideration of possible options for adoption in Australia</b>	<b>Agenda Item:</b>	3.2
		<b>Date:</b>	20 February 2023
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		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Preliminary discussion

## Objective of this paper

- 1 The objective of this Staff Paper is to **consider** possible options for the adoption of ED/2021/7 *Subsidiaries without public accountability: Disclosures* (draft Standard) in Australia.
- 2 Board members will not be asked to make any decisions on the possible options for adoption at this meeting. However, Board members will be asked whether they agree with the proposed approach to evidence gathering and targeted outreach to help inform future Board decisions.

## Reasons for bringing this paper to the Board

- 3 When AASB 1060 was developed, the Board was aware of the IASB project and acknowledged that the draft Standard might ultimately replace AASB 1060 (paragraph BC24 of AASB 1060).
- 4 Given the IASB's decision to proceed with finalising the draft Standard at its June 2022 meeting, this paper considers possible approaches the AASB may take in relation to adopting the draft Standard in Australia.<sup>1</sup>

## Possible approaches to the draft Standard in Australia

### *Possible option 1 – Replace AASB 1060 with the draft Standard and retain the IASB's scope*

- 5 The AASB could adopt the draft Standard and retain the IASB's scope so that the draft Standard applies only to eligible subsidiaries without public accountability.<sup>2</sup> Under this option, the draft Standard would replace AASB 1060.

### Benefits

- 6 This option would allow subsidiaries without public accountability to include a statement of compliance with IFRS Standards in their Tier 2 financial statements. In addition, the AASB would not need to maintain AASB 1060.

### Barriers

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- 1 AASB staff note that some of these options were outlined in [Agenda Paper 4.1](#) to the November 2021 AASB.
  - 2 An eligible subsidiary is a subsidiary that, at the end of its reporting period:
    - (a) does not have public accountability; and
    - (b) has a parent that produces consolidated financial statements available for public use applying IFRS Standards.

- 7 The draft Standard requires more disclosures than AASB 1060 in some areas.<sup>3</sup> Therefore, entities would likely incur additional costs transitioning to the draft Standard. Many entities currently applying AASB 1060 transitioned from Special Purpose Financial Statements (SPFS) from 1 July 2021. Therefore, another change in the financial reporting framework relatively soon after adopting AASB 1060 may not be desired. However, the AASB could also delay the effective date of the draft Standard to provide entities enough time to prepare for the transition.
- 8 The draft Standard was developed for for-profit entities. Therefore, the AASB would need to separately consider the application of the draft Standard by not-for-profit entities, including any necessary amendments.
- 9 This option would not result in a standalone disclosure standard.<sup>4</sup>
- 10 AASB staff also note that the draft Standard has a much narrower scope than AASB 1060. Therefore, it is expected that many entities would not be able to apply the draft Standard. Under this option, and assuming only two GPFS reporting tiers in Australia, these entities would therefore need to apply Tier 1. This option is expected to be unpalatable for Australian entities for many reasons, including increased burden. For example, entities without public accountability that are not subsidiaries that are currently preparing Tier 2 financial statements would be required to prepare Tier 1 financial statements instead, thus incurring additional preparation costs. Therefore, AASB staff do not consider this to be a viable option.

*Possible option 2 – Replace AASB 1060 with the draft Standard and expand the scope*

- 11 The AASB could adopt the draft Standard and expand its scope so that it could be applied by all entities without public accountability regardless of the IASB's scope limitation of the draft Standard.

Benefits

- 12 This option would allow all entities without public accountability to include a statement of compliance with IFRS Standards in their Tier 2 financial statements. In addition, the AASB would not need to maintain AASB 1060.

Barriers

- 13 Except for the barrier listed in paragraph 10, the barriers of option 2 are expected to be the same as option 1.
- 14 In addition, the IASB has explained why the scope of the draft Standard is limited to subsidiaries without public accountability and is not applicable to other entities.<sup>5</sup> Allowing all entities without public accountability in Australia to apply the draft Standard is inconsistent with the IASB's approach and could contradict IASB's reasons.

*Possible option 3 – Amend AASB 1060 to include the additional disclosures required by the draft Standard to achieve compliance with IFRS Standards*

- 15 Under this option, AASB 1060 would be amended to include the additional disclosures required by the draft Standard that are not currently included in AASB 1060. However, disclosures currently required by AASB 1060, which are not included in the draft Standard, would be retained (i.e. the amended AASB 1060 would require more disclosures than the draft Standard).<sup>6</sup>

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3 Paragraphs 9 to 13 and Appendix A of Agenda Paper 4.1 presented at the November 2021 AASB meeting summarises the main differences between the draft Standard and AASB 1060. Agenda Paper 4.1 is reproduced as Agenda Paper 3.4 to this meeting for ease of reference.

4 Refer to paragraph 14(c) of Agenda Paper 3.1 for details.

5 See paragraph 6 of Agenda Paper 3.1 and paragraph BC16 of the draft Standard.

6 As noted in the Basis for Conclusions of AASB 1060, the AASB considered the *IFRS for SMEs* disclosures an appropriate starting point for developing the Standard however additional disclosure requirements were added

## Benefits

- 16 In addition to the benefits of options 1 and 2, this option would result in a standalone standard for entities without public accountability. However, it would need to be determined whether subsidiaries without public accountability applying the draft Standard could state compliance with IFRS Standards.<sup>7</sup>

## Barriers

- 17 Similar to option 2. However, this option would result in a standalone standard, and the AASB would not need to separately consider the application of the draft Standard by not-for-profit entities, as this was considered when AASB 1060 was being developed.

### *Possible option 4 – Do not adopt the draft Standard and retain AASB 1060 unchanged*

## Benefits

- 18 Under this option, there would be no change to the financial reporting framework in Australia.

## Barriers

- 19 If the draft Standard is not adopted in Australia, eligible subsidiaries could not apply it and claim compliance with IFRS Standards.
- 20 This option would also result in Australia being a jurisdiction that has not fully implemented IFRS Standards. To understand the consequences of this, AASB staff think it necessary to perform outreach to determine the number of subsidiaries without public accountability that would be able to apply the draft Standard. Refer to paragraph 27 for additional discussion.
- 21 Once this understanding is obtained, group reporting and consolidation issues (if any), as well as the requirements of the *Corporations Act 2001* can be considered, and strategic discussions with the Financial Reporting Council may occur.

### *Possible option 5 – Adopt the draft Standard (as issued by the IASB) as an alternative Tier 2 framework, i.e. subsidiaries without public accountability could choose whether they apply AASB 1060 or the draft Standard*

## Benefits

- 22 Subsidiaries without public accountability could choose which framework they wanted to comply with and, if applying the draft Standard, could include a statement of IFRS compliance in their financial statements.

## Barriers

- 23 The AASB would need to maintain two Tier 2 frameworks.<sup>8</sup> AASB staff are unsure how many subsidiaries without public accountability are currently preparing Tier 2 financial statements. However, having two frameworks might be excessive for the number of entities. Also, having two Tier 2 frameworks would reduce the comparability of Tier 2 financial statements.
- 24 AASB staff note that currently there is a delay between when new/amended requirements are considered in the context of the *IFRS for SMEs Accounting Standard* which has created some challenges for the AASB when maintaining AASB 1060. However, as the IASB have confirmed their intention to consider amendments to the draft Standard while publishing an exposure

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where, for example, recognition and measurement principles were significantly different or certain topics were not addressed under the *IFRS for SMEs* Standard.

7 Following on from footnote 6, it would need to be determined whether the different disclosure requirements in AASB 1060, in comparison to the *IFRS for SMEs* Standard, will impact an eligible subsidiary from claiming IFRS compliance.

8 Whilst the IASB would maintain the draft Standard, the AASB would still need to consider amendments at the Australian level as part of its own due process.

draft for new or amended requirements,<sup>9</sup> AASB staff consider it is unlikely that the two Tier 2 frameworks in Australia would be significantly different at any point in time.

### Next steps and timeline

- 25 AASB staff will continue to monitor the IASB's progress on the project. The IASB has not published an expected effective date of the final Standard. However, the IASB has communicated that it will not publish a final Standard before 2024.<sup>10</sup>
- 26 Based on the limited information available, AASB staff's preliminary view is that option 5 might be the best approach in Australia.
- 27 However, to help inform future Board decisions, AASB staff suggest the following evidence gathering and outreach activities:
- (a) obtaining an understanding of the:
    - (i) total number of Australian entities (both public and private) who are preparing Tier 2 (AASB 1060) financial statements; and
    - (ii) total number of subsidiaries (both public and private) who are preparing Tier 2 financial statements that would be eligible to apply the draft Standard under the IASB's proposed scope;
  - (b) perform targeted outreach to understand whether being able to claim IFRS compliance is important to entities within the scope of the draft Standard and if so, whether they would voluntarily apply it if it was issued in Australia;
  - (c) obtain an understanding of what other jurisdictions with similar reporting frameworks are considering. This would include, for example, the United Kingdom and New Zealand; and
  - (d) discuss the possible adoption options in Australia with regulators to identify any preliminary issues they may have with the possible options.
- 28 In considering the AASB's preferred approach, AASB staff suggest that consideration will also need to be given to the scope of the proposed Standard and how to adapt the scope of the IASB's draft Standard for application in Australia. AASB staff suggest it is also necessary to consider any assurance implications (e.g. any challenges for auditors auditing multiple Tier 2 frameworks). A cost/benefit analysis would also be required.
- 29 AASB staff note that the AASB's Standard-Setting Policies and Processes requirements will also need to be considered in more detail when determining the AASB's preferred approach.
- 30 Whilst the IASB will not publish a final Standard before 2024, AASB staff recommend beginning the evidence gathering and outreach activities noted in paragraph 27 in Q2 of 2023. This will allow time for AASB staff to explore each possible option in more detail before a final Standard is issued by the IASB.
- 31 AASB staff note that as previously agreed with the Board, a post-implementation review (PIR) of AASB 1060 is due to commence shortly. AASB staff consider that the PIR of AASB 1060 should be closely linked with the AASB's assessment of the IASB's draft Standard and its suitability in Australia. As the evidence gathering activities outlined above are also likely to be relevant to the PIR of AASB 1060, as noted in Agenda Paper 5.1 to this meeting, AASB staff intend to align the PIR process and evidence gathering activities where possible.

### Questions to Board members

Q1 Do Board members agree with AASB staff undertaking the evidence gathering and targeted outreach suggested in paragraph 27?

<sup>9</sup> Refer to paragraph 16 of Agenda Paper 3.1 for details.

<sup>10</sup> See paragraph 18 of the [Staff Paper](#) presented at the IASB's December 2022 meeting.

Q2 Do Board members have any comments on the preliminary considerations discussed in paragraphs 5 to 24?

Q3 In addition to options 1 to 5, do Board members have any other suggestions on possible approaches that could be considered in Australia?