Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Subsidiaries without public accountability**	**Meeting:**	AASB November 2023 (M200)
Topic:	**Project update and discussion on possible options for adoption in Australia**	**Agenda Item:**	3.1
		Date:	13 November 2023
Contact(s):	Aanchal Bhandari abhandari@aasb.gov.au Jia Wei Jwei@aasb.gov.au Helena Simkova hsimkova@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High Low -

Objective

1 The objective of this Staff Paper is to:

(a) provide the Board with an update on the IASB's Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures project;

(b) provide the Board with a summary of feedback received from the limited initial targeted outreach and preliminary research findings;

(c) provide the Board with an update on other jurisdiction's approaches to expected Subsidiaries without Public Accountability Standard;

(d) remind the Board of the possible approaches to the expected standard in Australia that were presented to the Board in the March 2023 AASB Meeting; and

(e) provide the Board with the proposed timeline of the project.

2 Board members will not be asked to make any decisions on the possible options for adoption at this meeting. However, the Board is encouraged to discuss the possible approaches, any preferred option and the direction of the project.

Structure

3 This paper is structured as follows:

(a) Background and reasons for bringing this paper to the Board (paragraphs 4 to 14);

(b) Update on IASB's approach to individual potential amendments (paragraphs 15 to 21);

(c) Summary of evidence-gathered (paragraphs 22 to 41);

(d) Next steps and timeline (paragraphs 42 to 45);

(e) Questions to the Board;

(f) Appendix A – Extract from the March 2023 Board paper on possible approaches to the draft Standard in Australia;

(g) Appendix B – the AASB's recommendations to IASB from the submission letter to ED and IASB response; and

(h) Appendix C – summary of types of sampled entities.

Background and reasons for bringing this paper to the Board

4 In July 2021, the IASB published IASB ED/2021/7. In September 2021, the AASB issued an Australian equivalent AASB ED 314 *Subsidiaries without Public Accountability: Disclosures*.

5 IASB ED/2021/7 proposed a new IFRS Standard (subsidiaries Standard) that would permit eligible subsidiaries to apply IFRS Accounting Standards with a reduced set of disclosure requirements. An eligible subsidiary is a subsidiary that, at the end of its reporting period:

(a) does not have public accountability; [1] and

(b) has a parent that produces consolidated financial statements available for public use applying IFRS Standards.

6 These subsidiaries report to their parent company for consolidation purposes applying IFRS Accounting Standards. Electing to apply the proposed Standard would enable them also to use IFRS Accounting Standards when preparing their own financial statements but with reduced disclosures. The proposals would save subsidiaries time and money by:

(a) eliminating the need to maintain an additional set of accounting records for reporting purposes—if the subsidiary currently does not apply IFRS Accounting Standards in its own financial statements; and

(b) reducing the disclosures required to comply with IFRS Accounting Standards.

7 According to AASB 1053 *Application of Tiers of Australian Accounting Standards* the Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements (GPFS):

(a) Tier 1: Australian Accounting Standards – incorporating the full IFRS Accounting Standards and includes additional Australian-specific disclosure requirements; and

(b) Tier 2: Australian Accounting Standards – Simplified Disclosures – comprising the recognition and measurement requirements of Tier 1 with substantially reduced disclosures (AASB 1060).

8 Entities that have public accountability are required to prepare Tier 1 GPFS. Entities that do not have public accountability can prepare Tier 2 GPFS unless they elect or are required to apply Tier 1 reporting requirements, regardless of whether they report to a parent entity.[2] The AASB does not have a requirement to adopt IFRS Standards for Tier 2 entities. Therefore, since the subsidiaries Standard only applies to subsidiaries without public accountability, the AASB is not

1 AASB 1053 defines publicly accountable entities as those that have issued, or are in the process of issuing, debt or equity instruments for trading in a public market, or those that hold assets in a fiduciary capacity for a broad range of outsiders as one of its primary businesses.

2 Staff note there are some entities without public accountability that are required by legislation or other requirements to prepare Tier 1 GPFS.

required to adopt this standard to maintain compliance with IFRS Standards for Tier 1 entities. The Board took a similar view in the past when decided not to adopt the IFRS for SME's Standard in Australia.

9 AASB 1060 and the subsidiaries Standard are both based on the existing disclosures in the IFRS for SMEs Standard. The below table presents a comparison of the principles applied in developing AASB 1060 and the subsidiaries Standard:

Principles applied to develop the standards	
AASB 1060	**Subsidiaries without Public Accountability standard**
• If there are no recognition and measurement (R&M) differences between the IFRS Standards and IFRS for SMEs, then the disclosures in IFRS for SMEs were used in AASB 1060.	• If there are no R&M differences between the IFRS Standards and IFRS for SMEs, then the disclosures in IFRS for SMEs are used in the subsidiaries Standard. • Minor updates were made to align terms and language with IFRS Standards and update paragraph cross references.
• Disclosures relating to R&M options or treatments in the IFRS for SMEs Standard that are not available in full IFRS were removed. • If there were significant R&M differences between the IFRS Standards and the IFRS for SMEs Standard or the topics were not addressed, then disclosure requirements were adapted. • Disclosures added for topics that have not been addressed or that are a matter of public interest, or where Australian specific issues identified.	• If there are R&M differences between the IFRS Standards and the IFRS for SMEs Standard, then disclosure requirements from IFRS Standards have been used and tailored. • In this approach, they have applied principles used to develop disclosure requirements in the IFRS for SMEs Standard.

10 Whilst the subsidiaries Standard was developed using similar principles as those used for AASB 1060, some differences exist. In summary, the subsidiaries Standard includes more disclosure requirements in some areas than AASB 1060.[3]

AASB's recommendations to ED/2021/7 and IASB project decisions

11 The AASB received five submissions to ED 314. At its November 2021 meeting, the AASB considered the proposals in the draft Standard and decided to submit a comment letter to the

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. However, staff acknowledge that to reflect the feedback received the IASB made further changes to the draft Standard. Staff will provide an updated comparison when the Standard is issued.

IASB. Summary of the AASB recommendations and how these recommendations were addressed by the IASB is provided in Appendix B.

Reasons for bringing this paper to the Board

12 The IASB is expected to issue the final Standard in H1 2024. The effective date of the new Standard will be for annual periods starting on 1 January 2027.

13 At its March 2023 meeting, the Board was provided with options for possible approaches to the subsidiaries Standard in Australia. The Board considered the possible approaches but did not make any decisions. The Board directed staff to obtain evidence and undertake targeted outreach to better understand current Tier 2 financial reporting in Australia. This paper provides a summary of outreach activities and evidence gathered that may assist the Board in deciding the possible approach to the subsidiaries Standard in Australia.

14 The Board considered the options of whether and how to implement the subsidiaries Standard in Australia in March 2023. These options are summarised and presented in the below table. More details can be found in the extract from [Agenda Paper 3.2] in Appendix A for ease of reference.

<table>
<tr><td colspan="2">Possible Option 1: Replace AASB 1060 with the subsidiaries Standard and retain the IASB's scope so that the subsidiaries Standard applies only to eligible subsidiaries without public accountability.</td></tr>
<tr><td>Benefits
• subsidiaries without public accountability can include a statement of compliance with IFRS Accounting Standards in their Tier 2 financial statements;
• one standard only for Tier 2 entities, the AASB would not need to maintain AASB 1060.</td><td>Barriers
• much narrower scope than AASB 1060, many entities that currently use AASB 1060 would be out of the scope of the subsidiaries Standard and would have to prepare full IFRS Standards;
• the subsidiaries Standard requires more disclosures than AASB 1060 in some areas (full comparison with the final Standard still to be done when the Standard is issued);
• change of the framework too soon after transition from Special Purpose Financial Statements (SPFS) to GPFS Simplified Disclosures (1 July 2021);
• need to separately consider the application of the subsidiaries Standard by not-for-profit entities (NFP), including any necessary amendments;
• not a standalone disclosure standard.</td></tr>
<tr><td colspan="2">Possible option 2: Replace AASB 1060 with the subsidiaries Standard and expand the scope</td></tr>
<tr><td>Benefits
• the same as option 1.</td><td>Barriers
• the subsidiaries Standard requires more disclosures than AASB 1060 in some areas;
• change of the framework to soon after the transition from SPFS;
• need to consider application for NFP entities;</td></tr>
</table>

	• expanding the scope for entities in Australia is inconsistent with the IASB's approach and could contradict the IASB's reasons.
Possible option 3: Amend AASB 1060 to include the additional disclosures required by the subsidiaries Standard to achieve compliance with IFRS Standards	
Benefits • the same as options 1 and 2; • a standalone standard for Tier 2 entities.	Barriers • similar to option 2 except for separate consideration of NFP.
Possible option 4: Do not adopt the subsidiaries Standard and retain AASB 1060 unchanged	
Benefits • no change to the financial reporting framework in Australia.	Barriers • eligible subsidiaries cannot claim compliance with IFRS Standards; • Australia being a jurisdiction that has not fully implemented IFRS Standards.
Possible option 5: Adopt the subsidiaries 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 subsidiaries Standard	
Benefits • entities in scope could include a statement of IFRS compliance in their financial statements; • entities out of scope could still benefit from preparing GPFS Simplified Disclosures.	Barriers • two Tier 2 frameworks (increased costs for auditors or preparers).

IASB's approach to individual potential amendments of the subsidiaries Standard

15 At its September 2023 meeting, the IASB discussed its approach to individual potential amendments. When the IASB issues a new or amended IFRS Accounting Standard that includes new or amended disclosure requirements, the exposure draft will also include proposed changes to the subsidiaries' Standard.

16 The IASB noted that the new or amended IFRS Accounting Standards might include disclosure requirements that fall into categories of new requirements, deletion of existing requirements, amendment of requirements that are in the subsidiaries Standard; and amendment of requirements that are not in the subsidiaries Standard.

17 If the proposed amendments delete a disclosure requirement that was included in the subsidiaries Standard, then the expected response would be to propose deleting it from the Standard. The IASB further noted that potential amendments to the subsidiaries Standard arising from a new or amended IFRS Accounting Standard will be considered:

(a) individually based on the principles for reducing disclosures; and

(b) as a group to ensure that the effect of making the amendments is proportionate and preserves the goal of maintaining the usefulness of financial statements of eligible subsidiaries with reduced disclosure requirements.

18 At its November 2023 meeting the IASB is to consider a project plan for the preparation of a "Catch-up Exposure Draft" following the issue of the forthcoming Standard.

19 The IASB staff proposes that all new or amended standards proposed or issued after 28 February 2021 will be dealt with based on their timing:

(a) new or amended disclosure requirements issued between the publication of ED 2021/7 and the issue of the subsidiaries Standard will be included in the catch-up ED;

(b) new or amended disclosure requirements proposed between the publication of ED 2021/7 and the issue of the subsidiaries Standard and whose proposals are expected to be finalised and issued after the subsidiaries Standard is issued and therefore will be included in the exposure drafts for those new or amended Standards; and

(c) new or amended disclosure requirements are expected to be proposed after the subsidiaries Standard is issued and will be subject to the agreed maintenance approach.

20 The IASB expects most of the technical discussion to take place in January 2024 and expects to publish the Catch-up ED within a few months from issuing the subsidiaries Standard in Q2 2024. While in most cases the IASB expects the discussions will not be unduly onerous; they note that the new forthcoming Standard on Primary Financial Statements standard (PFS Standard), may require significant discussions.

21 This PFS Standard replaces IAS 1 *Presentation of Financial Statements* and relocates some of its previous content to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In preparing the draft Standard, the following approach has been applied:

(a) if the disclosure requirement was in IAS 1 and remains in either the PFS Standard or relocated to another IFRS Accounting Standard, the IASB's proposals in the ED (subject to changes made in redeliberation) hold for the subsidiaries Standard. The Catch-up ED will therefore address these disclosure requirements holistically;

(b) new or amended disclosure requirements in the PFS Standard will all apply to eligible subsidiaries. The Catch-up ED will therefore address those disclosure requirements individually.

Evidence-gathered and outreach activities

22 Since the March 2023 meeting, AASB Staff have conducted the following evidence-gathering and outreach activities to help inform future Board decisions:

(a) performed limited, targeted outreach with regulators (APRA and ASIC), respondents to AASB ED 314, participants of Large National Network (LNN) meetings, professional bodies and one other stakeholder;

(b) engaged in research aimed at assessing the prevalence of use of AASB 1060; and

(c) reached out to other jurisdictions with similar reporting frameworks to consider their intentions.

Feedback received from limited, targeted outreach

23 The AASB held limited targeted outreach with eight stakeholders. Overall, the AASB received mixed feedback from the stakeholders which has been summarised below in paragraphs 24-31.

24 The LNN discussion group did not have any strong preference for any of the proposed adoption options. One member noted that having two standards applicable to some Tier 2 entities may not be desired.

25 APRA noted that the APRA regulated entities have public accountability and therefore the subsidiaries Standard will likely not be relevant to them as they are required to apply full IFRS.

26 The ASIC did not raise any significant concerns in relation to any of the proposed adoption options.

27 One stakeholder noted that some Tier 2 entities, which in the past did not apply the Reduced Disclosure regime as it did not provide sufficient incentive, may have stepped down from preparing full IFRS financial statements and adopted AASB 1060 recently on the basis that it has significantly fewer disclosures compared to the RDR. These entities could feel misled if the level of disclosure increases. This could also cause unnecessary disruption and bring additional costs to Tier 2 entities that have just recently embraced Tier 2 on the basis of simpler disclosures.

This stakeholder noted that the possible option 5 to adopt the subsidiaries Standard (as issued by the IASB) as an alternative Tier 2 framework could be an appropriate approach to the subsidiaries Standard in Australia as this would give flexibility to entities that want IFRS compliance to use the draft standard in place of AASB 1060.

28 Two stakeholders noted a strong preference for option 2, which is to replace AASB 1060 with the subsidiaries Standard and expand the scope. One stakeholder noted that 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, this option was preferred over option 5 (Adopt the draft Standard as an alternative Tier 2 framework) as the preparers and auditors of Tier 2 financial statements would be required to consider the requirements of one standard only. It would also make the maintenance of the Tier 2 framework easier for the AASB.

29 One stakeholder further noted that if there was a global uptake of the subsidiaries Standard, the Australian subsidiaries could benefit from stating the compliance with IFRS. Global uptake would ensure that all subsidiaries are using the same standard, and the differences resulting from local jurisdiction requirements are included in the director's or other reports only. Given that entities have just adopted AASB 1060, the stakeholder suggested that this Standard could be made available for early adoption as the entities with overseas corporate centres might be interested in adopting the standard as early as possible.

The stakeholder also mentioned that their next preferred option is option 3 (amend AASB 1060 to include the additional disclosures required by the subsidiaries Standard). The stakeholder did not prefer option 4 which proposes not to adopt the subsidiaries Standard and retain AASB 1060 unchanged.

30 The other stakeholder who supported option 2 noted that since AASB 1060 was prepared using similar principles as the subsidiaries Standard, there are no significant differences between the two standards. Furthermore, the stakeholder noted that should the Board decide to implement option 5 (Adopt the subsidiaries Standard as an alternative Tier 2 framework), it would be difficult to justify why a family trust company and a large proprietary company (subsidiary) have different sets of disclosures because they have the same lodgement requirements and as such there are not many differences between the two entities. The stakeholder also expressed a view that the not-for-profits (NFPs) should be considered separately (subject to the development of the Tier 3 project).

The stakeholder mentioned there is an inclination from some Tier 2 entities to claim compliance with IFRS Standards. As an alternative, the stakeholders would prefer option 3 (amend AASB 1060 to include the additional disclosures required by the subsidiaries Standard).

31 Another stakeholder was of the view that the final subsidiaries Standard needs to be compared with the disclosures in AASB 1060 and the costs of the additional disclosures need to be

considered. Further outreach with stakeholders would help better understand their preference once the final standard is issued.

Summary of preliminary research findings

32 Staff currently conduct research aimed at assessing the prevalence of use of AASB 1060. The findings of this research could provide evidence of the number of entities that could be affected by a potential change to Tier-2 framework.

33 Staff are investigating the following aspects:

(a) The extent to which Australian for-profit and not-for-profit entities prepare Tier-2 financial statements in compliance with AASB 1060.

(b) The prevalence of subsidiaries without public accountability entities within the Australian economy.

34 Staff are gathering financial statements prepared for annual periods beginning on or after 1 July 2021.[4] However, at the time of writing this agenda paper, only financial statements of unlisted for-profit entities that were lodged before 1 July 2021 (i.e., early adopters) were available for the research. Therefore, as an initial step, staff analysed 150 such financial statements.

35 The Table in paragraph 37 below provides findings from preliminary research based on the analyses. It shows that[5]:

(a) The majority of the sampled entities (114) did not prepare Tier-1 GPFS, indicating a significant number of entities would implement AASB 1060 in the transition period and could be impacted by the subsidiaries Standard.

(b) Around 13 percent of sampled entities adopted AASB 1060 before the effective date.

36 It is important to note that the sampled entities may or may not be subsidiaries without public accountability. Staff are in the process of obtaining the data. Staff will continue with the research and findings will be shared with the Board in future meetings.

37 The table below summarises the types of financial statements in the sample:

Types of Financial Statements	Frequency	Percentage
Tier-1 GPFS	36	24.00%
Tier-2 (RDR) GPFS	38	25.33%
Tier 2 GPFS – AASB 1060	20	13.33%
SPFS	56	37.33%
Total	150	100.00%

4 AASB 1060, together with AASB 2020-2 apply to annual reporting periods beginning on or after 1 July 2021.

5 The types of sampled entities are provided in Appendix C.

Other jurisdiction's approach to subsidiaries *Standard*

New Zealand Accounting Standards Board (NZASB)

38 The NZASB aims to present a paper at the February 2024 meeting where the NZASB Staff will be recommending the Board to commence a public consultation on the proposed impact of the subsidiaries Standard in New Zealand. While the NZASB Staff are yet to confirm the approach to this consultation; they expect one of the options presented to constituents could be to replace NZ IFRS RDR with the requirements in the forthcoming IASB Standard. This would broaden the scope of the subsidiaries Standard in New Zealand.

UK Endorsement Board (UKEB)

39 The UKEB plan is to consider the forthcoming Standard for endorsement and adoption in the UK at a future meeting. Overall, the UKEB noted that they have heard mixed views on the uptake of the standard in the UK. The UK already has a reduced disclosure framework for subsidiaries (FRS 101 *Reduced Disclosure Framework*); feedback noted that the FRS 101 is more attractive than the subsidiaries Standard, indicating that there may be less uptake of the forthcoming IASB Standard in the UK. However, the UKEB's outreach on the ED indicated that UK listed groups would prefer their unlisted overseas subsidiaries to use the subsidiaries Standard.

40 The UKEB is also researching the potential implication of the definition of public accountability in the context of the UK legal/regulatory notion of public interest entity.

41 The UK has not adopted the IFRS for SMEs. FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* which is UK GAAP sets out the financial reporting requirements for entities that are not applying UK-endorsed IFRS, FRS 101 or FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*. The requirements in FRS 102 are based on the IFRS for SMEs with some significant amendments made for application in the UK and Republic of Ireland.

Next Steps and timeline

42 To help inform future Board decisions, AASB staff will perform a comparison of the requirements in the subsidiaries Standard and AASB 1060 once the final standard is issued by the IASB.

43 The post-implementation review (PIR) of AASB 1060 is due to commence in Q4 of 2024. As the PIR will target a similar group of stakeholders, staff intend to align the outreach activities with the PIR where possible.

44 The IASB is also currently in the process of redeliberating proposals on the second comprehensive review of the IFRS for SMEs Standard. The final Standard is expected to be issued by the IASB in H2 2024. As the AASB 1060 used IFRS for SMEs as a base, the Board may need to consider whether changes in IFRS for SMEs disclosures should be reflected in AASB 1060 (as noted in paragraph 52(a) of AASB For-Profit Standard Setting Framework and giving regard to the acknowledgement by the Board in BC96 in AASB 1060 that a review of the disclosures will need to take place any time the IFRS for SMEs Standard is updated).

45 The following table contains a tentative timeline for this project:

Timeline	**Milestone**
H1 2024	Final Standard expected to be issued by the IASB.

Q1-Q3 2024	Targeted outreach for the planning phase for post-implementation review (PIR) of AASB 1060.
Q2-Q3 2024	Targeted outreach for Subsidiaries without PA jointly with targeted outreach for AASB 1060 (after the Standard is issued).
H1 2024	IASB to issue the Exposure Draft on updating the Subsidiaries without Public Accountability: Disclosures Standard.
H2 2024	Final IFRS for SMEs Standard expected to be issued.
Q4 2024	ITC for PIR of AASB 1060 expected to be issued.
H1 2025	Outreach – PIR AASB 1060, Subsidiaries without PA and impact of changes to IFRS for SMEs on AASB 1060.
Q2-Q3 2025	Feedback analysis (Subsidiaries without PA).
Q4 2025	Board to decide on whether and how to adopt Subsidiaries without PA.

Question to the Board:

1. Do the Board members have any relevant stakeholders that the Staff can contact for outreach?
2. Do Board members have any comments on the proposed next steps and timeline?
3. Do Board members have any comments on the possible approaches to the subsidiaries Standard discussed in paragraph 14?

Appendix A

Extract from the March 2023 Board paper on possible approaches to the draft Standard in Australia

46 At the March 2023 AASB Board Meeting, Staff provided the Board with possible options for adopting the draft Standard when it is issued in Australia. An extract from the March 2023 Board paper on possible approaches to the draft Standard in Australia is provided below.

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

47 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.[6] Under this option, the draft Standard would replace AASB 1060.

Benefits

48 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

49 The draft Standard requires more disclosures than AASB 1060 in some areas.[7] 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.

50 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.

51 This option would not result in a standalone disclosure standard.

52 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.

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6 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 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.

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

53 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.

<u>Benefits</u>

54 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.

<u>Barriers</u>

55 Except for the barrier listed in paragraph 52, the barriers of option 2 are expected to be the same as option 1.

56 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.[8] 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

57 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). [9]

<u>Benefits</u>

58 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. [10]

<u>Barriers</u>

59 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

<u>Benefits</u>

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

<u>Barriers</u>

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8 See paragraph BC16 of the draft Standard.

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

10 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.

61 If the draft Standard is not adopted in Australia, eligible subsidiaries could not apply it and claim compliance with IFRS Standards.

62 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 further outreach to determine the number of subsidiaries without public accountability that would be able to apply the draft Standard.

63 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

<u>Benefits</u>

64 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.

<u>Barriers</u>

65 The AASB would need to maintain two Tier 2 frameworks.[11] 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.

66 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 draft for new or amended requirements,[12] AASB staff consider it is unlikely that the two Tier 2 frameworks in Australia would be significantly different at any point in time.

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[11] 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.

[12] Refer to paragraphs 15 to 21 for more details on Approach to IASB's approach to individual potential amendments.

Appendix B

The below table summarises the AASB's recommendations to IASB. It also summarises the IASB project decisions that are relevant to the recommendations made by the AASB.

AASB's recommendations to the IASB	**IASB project decisions relevant to the recommendations made by the AASB**
The AASB recommended the IASB to consider broadening the scope of the draft Standard to apply to all entities without public accountability. The AASB recommended the IASB undertake further outreach to understand the importance of IFRS compliance for entities without public accountability to help ensure entities, which are not subsidiaries, are not disadvantaged either due to the need to comply with a higher level of disclosures or a higher cost of capital. The AASB also commented that the narrow scope of the draft Standard may, in general, reduce the comparability of financial statements due to alternative frameworks being used. Further, extending the scope to all entities without public accountability may encourage worldwide adoption of the draft Standard.	At its November 2022 meeting, the IASB tentatively decided to confirm that subsidiaries eligible to apply the draft Standard are those that are subsidiaries at the end of the reporting period and that have an ultimate or intermediate parent that produces consolidated financial statements that comply with IFRS Standards and are available for public use.
The AASB recommended the IASB reconsider the evidence supporting the cost versus benefit analysis and further reduce some of the proposed disclosure requirements to reflect user needs. This would help to ensure the draft Standard is easy to apply and reflects the less complex operations of subsidiaries without public accountability.	In December 2022, the IASB tentatively decided to retain/confirm its previous decisions, in relation to these, when developing the draft Standard.
The AASB suggested the IASB consider including all disclosure requirements, including those related to presentation and guidance within one standalone standard, so it is easy for preparers to use.[13] The AASB also suggested removing all footnote references to applicable disclosure requirements in other	At its October 2022 meeting, the IASB tentatively decided to omit Appendix A and replace the footnotes with cross-references to disclosure requirements that remain applicable in other IFRS Standards, under each IFRS Standard sub-heading. The IASB also tentatively decided to modify its approach to developing

[13] The draft Standard covers disclosures that are required in the notes to financial statements and requires stakeholders to refer back to full IFRS Standards for classification or presentation purposes and/or guidance.

AASB's recommendations to the IASB	**IASB project decisions relevant to the recommendations made by the AASB**
IFRS Standards. Including them in the draft Standard may be confusing and time-consuming for preparers to identify all relevant disclosure requirements.	the proposed disclosure requirements to ensure that the language used in the disclosure requirements is the same as the language in full IFRS Accounting Standards.
Consider amending the Basis for Conclusions to ensure it thoroughly explains the Board's consideration and decision process, including why individual disclosure requirements were considered relevant for the entities in scope. Particularly where disclosure requirements not contained in the *IFRS for SMEs* Standard were included in the draft Standard.	At its October 2022 meeting, the IASB tentatively decided to explain in the s Basis for Conclusions why the disclosure requirements in the *IFRS for SMEs* Standard are the appropriate starting point, how 'cost–benefit' is considered and the reason for the exceptions made to the approach to developing the proposed disclosure requirements.

Appendix C

The below table summarises the types of sampled entities.

Types of Financial Statements	Type of Entities (frequency)		Frequency	Percentage
Tier-1 GPFS	Large Proprietary Companies	9	36	24.00%
	Small Proprietary Companies Controlled by Foreign Companies	1		
	Public Companies	20		
	Public Companies Limited by Guarantee	6		
Tier-2 (RDR) GPFS	Large Proprietary Companies	11	38	25.33%
	Small Proprietary Companies Controlled by Foreign Companies	4		
	Public Companies	18		
	Public Companies Limited by Guarantee	5		
SPFS	Large Proprietary Companies	28	56	37.33%
	Small Proprietary Companies Controlled by Foreign Companies	7		
	Public Companies	12		
	Public Companies Limited by Guarantee	9		
AASB1060	Large Proprietary Companies	15	20	13.33%
	Small Proprietary Companies Controlled by Foreign Companies	1		
	Public Companies	3		
	Public Companies Limited by Guarantee	1		
Total	Large Proprietary Companies	63	150	100.00%
	Small Proprietary Companies Controlled by Foreign Companies	13		
	Public Companies	53		
	Public Companies Limited by Guarantee	21		