



Project:	Australian Financial Reporting Framework	Meeting	AASB April 2019 (M170)
Topic:	Proposed amendments to Australian Accounting Standards – Disclosure of compliance with recognition and measurement	Agenda Item:	4.1
		Date paper was finalised:	16 April 2019
Contact(s):	Kim Carney kcarney@aasb.gov.au Robert Keys rkeys@aasb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Developing Exposure Draft

Objective of this paper

- 1 The objective of this paper is for the Board to **decide** how to proceed with its decision to require entities currently preparing special purpose financial statements (SPFS) to include some kind of statement of compliance with the recognition and measurement (R&M) requirements of Australian Accounting Standards (AAS).
- 2 The Board needs to decide:
 - (a) which entities should be affected by the requirement; and
 - (b) the nature of amendments to AAS that would give effect to that requirement.

Reasons for the Board to consider this paper at this meeting

- 3 At its February 2019 meeting the Board noted the importance of users of SPFS being able to determine whether such financial statements comply with the R&M requirements in AAS and also noted the challenges those users currently face in making such a determination. Accordingly, the Board decided to consider whether entities should be required to include a statement of compliance with the R&M requirements in AAS in their SPFS as a priority, independently of the broader more fundamental longer-term financial reporting framework proposals.

Structure

- 4 This paper is structured as follows:
- (a) Background (paragraphs 5-16)
 - (b) Summary of Staff recommendations (paragraphs 17-19)
 - (c) Issue 1: Who should be required to make the contemplated disclosure? (paragraphs 20-39)
 - (d) Issue 2: What information about compliance with AAS should be required to be disclosed in SPFS? (paragraphs 40-45)
 - (e) Issue 3: Other related matters considered (paragraphs 46-50)
 - (f) Informal outreach (paragraph 51)
 - (g) Next steps (paragraphs 52-53)
 - (h) Appendix A: Staff preliminary suggestions for drafting the amendments: amendments to AASB 1054, possible illustrative examples and a decision tree that could assist in applying the amendments (intended to be discussed in the Board meeting only if the Board agrees in principle with the staff recommendations summarised in paragraphs 17 and 18 of this paper)
 - (i) Appendix B: Extracts from the NFP standard-setting framework (for Board members' information)
 - (j) Appendix C: Matters that could be pertinent in deciding whether consolidation is R&M, P&D, neither or both (for Board members' information)

Background

- 5 Australia is the only jurisdiction with a 'reporting entity' concept that effectively permits entities to self-assess what type of financial reporting is required when legislation or otherwise (i.e. such as a constitutional document) requires the preparation of financial statements in accordance with accounting standards (issued by the AASB). Unlike other jurisdictions, in Australia two similar entities might prepare very different sets of financial statements, one preparing general purpose financial statements (GPFS) using a robust and consistent framework, and the other preparing SPFS with self-selected requirements¹ despite any constraints imposed on that self-selection by paragraphs 7 and 10 to 12 of AASB 108 *Accounting Policies*,

¹ Paragraph 6, [Invitation to Comment ITC 39 Consultation Paper Applying the IASB's ceand Solving the Reporting Entity and Special Purpose Financial Statement Problems](#) (ITC 39)

*Changes in Accounting Estimates and Errors*². Indeed, as noted in paragraph 8 and 9 below, research has identified such diversity in practice.

- 6 Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* sets out the reporting entity concept, that is, “entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources”.³
- 7 SAC 1 states that “reporting entities shall prepare general purpose financial reports”,⁴ and notes that “the group, which may be termed an economic entity, will be a reporting entity where there exist users dependent on general purpose financial reports for making and evaluating resource allocation decisions regarding the collective operations of the group of entities”.⁵ SAC 1 does not address when consolidated financial statements shall be prepared (nor indeed when unconsolidated financial statements shall be prepared).
- 8 Yet to be published academic research⁶ into the reporting practices of **for-profit non-disclosing entities** lodging SPFS with the Australian Securities and Investments Commission (ASIC) has found that, as at 30 June 2018, there were approximately 12,800 large proprietary companies, small foreign-controlled proprietary companies and unlisted public companies lodging financial statements with ASIC. Of these 12,800 companies, 55% prepared SPFS in the period 2016-2018. The researchers have reviewed a sample of the SPFS lodged with ASIC during this time and found that of the 55% of entities preparing SPFS:

² Paragraph 7 states “When an Australian Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.” Paragraph 10 states “In the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable, in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, ie free from bias;
- (iv) are prudent; and
- (v) are complete in all material respects.”

Paragraph 11 states “In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements in Australian Accounting Standards dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Framework*.”

Paragraph 12 of AASB 108 states “In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.”

³ SAC 1, paragraph 40

⁴ SAC 1, paragraph 41

⁵ SAC 1, paragraph 17

⁶ Draft AASB Research Report *Financial Reporting Practices of For-Profit Entities Lodging SPFSs - 2019*. As this research has not yet been published, the findings reported in this paper are preliminary only.

- (a) 66% explicitly stated compliance with the R&M requirements in AAS;
 - (b) a further 10% have complied with the R&M requirements in AAS without explicitly saying so, based on a qualitative assessment performed by AASB staff;
 - (c) 10% did not comply with the R&M requirements in AAS (0.5% of these entities stated explicitly that they did not comply with the R&M requirements in AAS, while the classification of the remaining 9.5% was based on a qualitative assessment performed by AASB staff); and
 - (d) the extent of compliance (or otherwise) with the R&M requirements in AAS of the remaining 14% is unclear.
- 9 Similar, also yet to be published, academic research⁷ into the reporting practices of **not-for-profit (NFP) entities** lodging financial statements with the Australian Charities and Not-for-profits Commission (ACNC) notes that in 2016 compliance with R&M in the NFP sector is much lower than the for-profit sector. The research found that only approximately 33% of charities that are required to prepare a financial report either state compliance or appear to have complied with the R&M requirements in AAS.⁸
- 10 In many cases (14% of the for-profit non-disclosing entities lodging with ASIC preparing SPFS and 17% of NFP entities lodging with the ACNC and preparing SPFS) the researchers found it difficult to determine which entities had and had not complied with the R&M requirements in AAS based on the accounting policies disclosed in the financial statements. Users of SPFS face similar challenges.
- 11 These findings are consistent with paragraph 6.1 of Accounting Professional and Ethical Standards Board (APESB) APES 205 *Conformity with Accounting Standards* (October 2015), which states:
- (a) that the Financial Statements are Special Purpose Financial Statements;

⁷ Therefore, the findings of the research reported in this paper are preliminary only.

⁸ Due to the manner in which the research was undertaken, staff are unable to bifurcate the percentage of entities that explicitly stated compliance with the R&M requirements in AAS as distinct from the percentage of entities that appeared to have complied with the R&M requirements in AAS based on a qualitative assessment.

- (b) the purpose for which the Special Purpose Financial Statements have been prepared; and
- (c) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements.”

Similarly, paragraph 117 of AASB 101 *Presentation of Financial Statements*, which applies not only to GPFS, but also to the SPFS of entities required to prepare financial reports in accordance with the *Corporations Act 2001* (Corporations Act), also only requires an entity to disclose its significant accounting policies, which can be done in a way that does not reveal the extent of compliance with R&M.⁹

Accordingly, compliance with paragraph 6.1(c) of APES 205 and paragraph 117 of AASB 101 would not necessarily provide users with sufficient information to be able to determine the extent to which the R&M requirements in AAS have been conformed with.

- 12 Anecdotally, staff understand that some entities preparing SPFS appear to be parent entities but do not prepare consolidated financial statements, and some of those are not providing an explanation as to why they have not consolidated. It might be because the parent entity chose not to prepare consolidated financial statements on the basis it regarded itself and/or the group as not being subject to AASB 10 *Consolidated Financial Statements* on the basis it is not a ‘reporting entity’ or it is not purporting to be preparing GPFS; or it might be because the parent entity and/or the group elected to apply AASB 10 but met one of the consolidation exemptions outlined in paragraphs 4, Aus4.1, Aus4.2 and 4B of AASB 10.
- 13 Furthermore, in July 2005 ASIC released Regulatory Guide 85 *Reporting requirements for non-reporting entities* (RG 85), which provides guidance on the application of accounting standards to entities that are required to prepare a financial report in accordance with the Corporations Act. RG 85 states “... ASIC believes that non-reporting entities, which are required to prepare financial reports in accordance with Chapter 2M of the *Corporations Act 2001* (Act), should comply with the recognition and measurement requirements of accounting standards”.¹⁰ As noted in paragraph 8 above, the yet to be published research into the extent of compliance with the R&M requirements in AAS by for-profit non-disclosing entities lodging SPFS with ASIC shows that at least 10% and potentially up to 24% of them do not appear to have followed the guidance outlined in RG 85.
- 14 RG 85 notes that some “companies have failed to prepare consolidated financial statements on the grounds that the parent entity was not a reporting entity”.¹¹ ASIC’s response to that failure is to note that the “sole determining factor as to whether

⁹ Paragraph 117 of AASB 101 states “An entity shall disclose its significant accounting policies comprising:
(a) the measurement basis (or bases) used in preparing the financial statements; and
(b) the other accounting policies used that are relevant to an understanding of the financial statements.”

¹⁰ RG 85, paragraph 2

¹¹ RG 85, paragraph 5.1

consolidated financial statements are required is whether the **group** is a reporting entity.” (emphasis added)¹²

- 15 From the above discussion, it is apparent that the way the reporting entity concept has been applied in Australia has led to the unsatisfactory situation where users are potentially inadequately informed about the nature of SPFS. The link between the reporting entity definition in SAC 1 and the requirement to prepare consolidated financial statements in AASB 10 (which is only mandatory for reporting entities or entities preparing GPFS) has also led to differences in practice regarding when consolidated financial statements are or are not prepared.
- 16 It is within this context that, at the February 2019 Board meeting, the Board decided to consider whether entities should be required to include a statement of compliance with the R&M requirements in AAS in their SPFS.

Summary of Staff recommendations

- 17 Staff recommend an amendment to AASB 1054 *Australian Additional Disclosures* to require both for-profit and NFP entities within the application paragraph of AASB 1054 preparing SPFS to disclose, in addition to disclosing the significant accounting policies adopted in the preparation of the SPFS in accordance with AASB 101 (if not otherwise disclosed in complying with that AASB 101 requirement):
- (a) whether or not the entity is a parent entity as defined in AASB 10, and, if so, whether the financial statements are:
 - (i) consolidated, and if so whether or not they consolidate all entities that would be consolidated if AASB 10 were to be applied;¹³ or
 - (ii) unconsolidated, and if so whether or not:
 - A. their non-consolidation is consistent with the entity’s assessment that it is not subject to AASB 10;
 - B. their non-consolidation is consistent with the exemptions in paragraphs 4(a), Aus4.1, Aus4.2 and 4B of AASB 10; and
 - C. consolidated financial statements are available and where they can be accessed.¹⁴

¹² RG 85, paragraph 5.5

¹³ Where an entity is preparing consolidated financial statements but is not consolidating all entities that would be required to be consolidated if AASB 10 were to be applied, the requirement to disclose the significant accounting policies of the entity (for example, the manner in which consolidated financial statements were prepared) should already be disclosed in the financial statements, so it is staffs’ view that additional disclosure is not necessary.

¹⁴ Disclosure of this information is consistent with the requirement in paragraph 16(a) of AASB 127, therefore staff have included it in the suggested amendments to AASB 1054 for the sake of completeness.

- (b) whether the entity has investments in an associate or joint venture as defined in AASB 128 *Investments in Associates and Joint Ventures*, and whether or not they have been accounted for in a manner consistent with with AASB 128; and
 - (c) the extent to which the entity's accounting policies are consistent with the R&M requirements in AAS in preparing the consolidated or unconsolidated SPFS about which the above disclosures are being made.
- 18 Staff recommend illustrative examples and a decision tree on how the suggested disclosures should be applied be attached to AASB 1054 as non-mandatory material.
- 19 Staff's preliminary suggestions for drafting the amendments, together with illustrative examples and a decision tree are provided in Appendix A of this paper, to help focus the Board's discussion if the Board broadly agrees in principle with the staffs' view.

Issue 1: Who should be required to make the contemplated disclosure?

- 20 For completeness, we address this question within the context of *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework* in turn below.

Is the contemplated disclosure justified for for-profit entities by The AASB's For-Profit Entity Standard-Setting Framework?

- 21 Paragraph 29(a) of [The AASB's For-Profit Entity Standard-Setting Framework](#) (for-profit standard-setting framework) states that when developing accounting standards for for-profit entities that are not publicly accountable¹⁵, the AASB's objectives are to use IFRS Standards and transaction neutrality as a starting point, however, when justified, make modifications to IFRS Standards or develop Australian-specific guidance to address:
- (a) Australian-specific legislation, user needs, or public interest issues relevant to financial reporting or beyond financial reporting;
 - (b) issues specific to the public sector of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements;
 - (c) where the objectives and qualitative characteristics of financial reporting as set out in the *AASB Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) would not be met; and/or
 - (d) undue cost or effort considerations.

¹⁵ The for-profit standard-setting framework refers to two types of for-profit entities; those publicly accountable entities (as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*), and other for-profit entities.

- 22 Paragraph 33 of the for-profit standard-setting framework also sets out seven reasons when the AASB may consider the need for Australian-specific standards, amendments, guidance or examples. Those that are most relevant to this paper are:
- (a) Australian constituents raise the need with the AASB; and
 - (b) evidence of diversity in accounting practices exists, and the prevalence and magnitude of the issue results in entities' reported performance or financial position not reflecting economic reality.
- 23 In response to these criteria, staff note that the shortcomings of the current state of SPFS reporting (as discussed in paragraphs 5 to 10 above):
- (a) are a result of Australian-specific matters, namely SAC 1 and the reporting entity concept;
 - (b) significantly adversely impacts financial statement users. As part of the outreach conducted on ITC 39, staff note that 78% of primary users¹⁶ and 73% of other users¹⁶ who responded to the User survey¹⁷ and five out of the six users who provided a submission on Phase 2 of ITC 39 noted that there is a SPFS problem.¹⁸ These users also noted that consistency, comparability and transparency in financial reporting are important. In undertaking targeted outreach, staff also noted with some concern that at times stakeholders (such as legal advisors) were unaware that the preparation of SPFS did not require compliance with all R&M requirements in AAS; and
 - (c) evidence of diversity in accounting practices exists. [Agenda Item 4.1](#) presented at the February 2019 meeting noted a large number of respondents to ITC 39 referred in some manner to the lack of, or need to improve, comparability, consistency and transparency caused by the application of SAC 1, the reporting entity concept and SPFS, both domestically and as compared with international jurisdictions. This is supported by the preliminary findings of the academic research into the level of compliance with the R&M requirements in AAS. As noted in paragraphs 8 and 9 above, only 76% of for-profit non-disclosing entities lodging with ASIC and 33% of charities lodging with ACNC either state compliance or have complied (based on a qualitative review performed by AASB staff) with the R&M requirements in AAS.
- 24 For these reasons, staff are of the view that an amendment to AAS to require (at least some – see the discussion in paragraphs 30-39 below) for-profit entities preparing SPFS to make some kind of a statement of compliance with the R&M

¹⁶ Throughout the User Survey Report, 'primary users' refers to users that meet the definition of primary users in [AASB Practice Statement 2 Making Materiality Judgements](#) (i.e. investors (and analysts), lenders and other creditors) and all other respondents are referred to as 'other users'.

¹⁷ [AASB Staff Paper: Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements, For-profit User and Preparer Survey Results](#)

¹⁸ [Agenda Item 4.1](#) presented at the February 2019 meeting.

requirements in AAS would be consistent with the AASB's published for-profit standard-setting framework.

Question for the Board:

- Q1. Does the Board agree that an amendment to AAS to require (at least some) for-profit entities preparing SPFS to make some kind of a statement of compliance with the R&M requirements in AAS would be consistent with the AASB's published for-profit standard-setting framework?

Is the contemplated disclosure justified for not-for-profit entities by The AASB's Not-for-Profit Entity Standard-Setting Framework?

- 25 Both the for-profit standard-setting framework and the [The AASB's Not-for-Profit Standard-Setting Framework](#) (NFP standard-setting framework) are predicated on the assumption of transaction neutrality, that is, like transactions and events should be accounted for in a like manner for all types of entities unless there is a justifiable reason to not to do so.¹⁹
- 26 Paragraph 25 of the NFP standard-setting framework states that the primary purpose and benefit of NFP-specific standards, amendments, guidance or examples is to improve the information provided to users of a NFP entity's financial statements. NFP issues may affect NFP entities in the public sector or the private sector.
- 27 Paragraph 28 of the NFP standard-setting framework sets out the justifiable circumstances under which the Board may consider amending AAS for NFP entities. Such circumstances include financial reporting inadequately reflecting the objectives and qualitative characteristics of the Conceptual Framework, user information needs not being addressed (e.g. insufficient disclosure of NFP specific matters), the prevalence and magnitude of NFP-specific transactions, circumstances and events, Australian public interest issues, application issues, undue cost or effort and incompatibility with existing NFP standards. The full requirements of paragraph 28 are reproduced in Appendix B of this paper for ease of reference.
- 28 Noting the rationale for the contemplated amendment (refer paragraph 24 above), the significant number of NFP entities preparing SPFS and the low levels of R&M compliance in the NFP sector (see paragraph 9 above), staff do not regard any of the situations noted in the NFP standard-setting framework as providing a justification for treating NFP entities differently from for-profit entities in relation to the subject matter of this paper. Staff instead believe the contemplated amendment to AAS to require some kind of statement of compliance with the R&M requirements in AAS in NFP SPFS would provide users with useful information.
- 29 Accordingly, staff are of the view that an amendment to AAS to require (at least some – see the discussion in paragraphs 30-39 below) NFP entities preparing SPFS to make

¹⁹ Paragraph 25 of the for-profit standard-setting framework and paragraph 22 of the NFP standard-setting framework.

some kind of statement of compliance with the R&M requirements in AAS would be consistent with the AASB's published NFP standard-setting framework.

Question for the Board:

Q2. Does the Board agree that an amendment to AAS to require (at least some) NFP entities preparing SPFS to make some kind of statement of compliance with the R&M requirements in AAS would be consistent with the Board's published NFP standard-setting framework?

*Should the contemplated disclosure apply to **all** entities preparing SPFS; or should it apply to **all** entities required by legislation or otherwise to prepare financial statements that comply with AAS that are preparing SPFS; or should it apply only to those entities that are caught by the application paragraph of AASB 1054?*

- 30 Both the for-profit standard-setting framework and the NFP standard-setting framework state that the AASB does not currently set standards for SPFS, as SPFS should only be prepared where users can tailor them to their own information needs, and therefore do not need a standard-setter or regulator to require the information on their behalf. Accordingly, those responsible for the preparation of SPFS should determine the extent of conformity with AAS.²⁰
- 31 Notwithstanding this, both standard-setting frameworks acknowledge there are some AAS (i.e. AASB 101, AASB 107 *Statement of Cash Flows*, AASB 108, AASB 1048 *Interpretation of Standards* and AASB 1054) that must be applied regardless of whether an entity prepares GPFS or SPFS. These application requirements were adopted "as part of moving legacy regulations out of legislation and into Australian Accounting Standards ...".²¹ Paragraph 9 of AASB 1054 also sets a precedent for requiring disclosures in SPFS by requiring preparers to disclose the type of financial statements they have prepared (i.e. GPFS or SPFS).²²
- 32 It seems reasonable to conclude that the most appropriate AAS in which to make the contemplated amendment that is the subject of this paper is AASB 1054 because it is an Australian specific standard and contains existing requirements in paragraphs 7,²³

²⁰ Paragraphs 12 and 13 of both the for-profit standard-setting framework and the NFP standard-setting framework.

²¹ Paragraph 14 of both the for-profit standard-setting framework and the NFP standard-setting framework.

²² Paragraph 9 states "An entity shall disclose in the notes whether the financial statements are general purpose financial statements or special purpose financial statements."

²³ Paragraph 7 states "An entity whose financial statements comply with Australian Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Australian Accounting Standards unless they comply with all the requirements of Australian Accounting Standards."

RDR7.1²⁴ and 9 of a similar nature.²⁵ Currently AASB 1054, and therefore those requirements, apply to:

- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;
- (b) general purpose financial statements of each reporting entity; and
- (c) financial statements that are, or are held out to be, general purpose financial statements.

33 In the NFP sector, the ACNC has stated that charities lodging SPFS with them are required to apply, as a minimum, AASB 101, AASB 107, AASB 108, AASB 1031 *Materiality* (though this AAS has now been superseded), AASB 1048 and AASB 1054.²⁶

34 Therefore, as the objective of the contemplated amendment is to require entities preparing SPFS to make some kind of statement of compliance with the R&M requirements in AAS, the question arises as to whether the application paragraph of AASB 1054 is appropriate/broad enough. In other words, should the contemplated disclosure be required by:

- (a) **all** entities preparing SPFS (including those doing so voluntarily); or
- (b) **all** entities preparing SPFS that are required by legislation or otherwise to comply with AAS (this would include for example Incorporated Associations preparing SPFS who have a general legislative requirement to comply with AAS or entities whose constitutional documents require compliance with AAS, but whom are not contemplated in the application paragraphs of AAS as they are outside the scope of the Corporations Act); or
- (c) only those entities preparing SPFS that are caught by the application paragraph of AASB 1054 (and, by extension, any entities required by legislation or other authority to comply with AASB 1054, including entities lodging with the ACNC who are required by ACNC legislation to comply with AASB 1054).²⁷

²⁴ Paragraph RDR7.1 “An entity whose financial statements comply with Australian Accounting Standards – Reduced Disclosure Requirements shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Australian Accounting Standards – Reduced Disclosure Requirements unless they comply with all the requirements of Australian Accounting Standards – Reduced Disclosure Requirements.”

²⁵ Some might argue a natural home for making the contemplated amendment is AASB 101, because its paragraph 117 contains the general requirement to disclose significant accounting policies. However, it is staffs’ view that AASB 1054 is more appropriate, given the contemplated amendment is Australian-specific, which is consistent with the objective of AASB 1054 “... to set out Australian-specific disclosure requirements that are in addition to the disclosure requirements of International Financial Reporting Standards” (AASB 1054 paragraph 1).

²⁶ Section 60.30, [Australian Charities and Not-for-profits Commission Regulation 2013](#)

²⁷ Although AAS explicitly state they apply to entities subject to the Corporations Act, entities subject to other legislation or other authority (such as ACNC regulated entities) are not explicitly referred to in AAS. Instead, the

- 35 If the contemplated amendment were to apply to **all** entities preparing SPFS or **all** entities required by legislation or otherwise to comply with AAS and who are preparing SPFS, the application of AASB 1054 would need to be extended. It would also be necessary to consider whether the other disclosure requirements of AASB 1054 should be ‘turned off’ (i.e. the disclosures required by paragraphs 8 – 16). This may be necessary so that entities that are **not** currently required to comply with AASB 1054 would not be required to make the other disclosures required by AASB 1054, that is, they would not need to disclose audit fees for example if they are not currently required to do so, but would be required to disclose some kind of statement of compliance with the R&M requirements in AAS. ‘Turning off’ certain requirements in AASB 1054 for certain entities preparing SPFS would add to the complexity of AASB 1054.
- 36 Given the objective of the contemplated amendment is to inform SPFS users regarding the extent of compliance with AAS, there is merit in requiring **all** entities required by legislation or otherwise to comply with AAS preparing SPFS to make the contemplated disclosure, however requiring **all** entities preparing SPFS (and not just limiting the application for example to those entities required by legislation or otherwise to comply with AAS) to make the contemplated disclosure is in staffs’ view, not apposite. In staff’s view it is not apposite as the Board’s role is to determine the appropriate accounting framework and standards that should apply where legislation or regulation or other authority require the preparation of financial statements that comply with AAS. If however the contemplated amendment were to be required only in relation to entities caught by the application paragraph of AASB 1054, there may be a large number of entities preparing SPFS that would not be required to make the suggested disclosure (e.g. entities outside the scope of the Corporations Act and entities not regulated by the ACNC).
- 37 To mitigate this concern, staff note that many of these entities would be expected to fall within the scope of APES 205, as the intention of APES 205 is to set requirements for members²⁸ who are involved in the preparation, presentation, audit, review or compilation of financial statements for entities that are outside the scope of the Corporations Act²⁹. Based on discussions with APESB staff, AASB staff expect the APESB will consider an amendment to APES 205 consistent with the amendment contemplated in this paper at a future meeting.
- 38 If APES 205 is amended in a manner consistent with (or at least complementary to) the amendment contemplated in this paper, staff expect that a significant number of the entities preparing SPFS that are not caught directly by the application paragraph

relevant regulators make it clear (or could choose to make it clear) whether and to what extent their regulated entities are required to comply with AAS.

²⁸ APES 205 applies to members, where a member is defined as “a member of a professional body that has adopted this Standard as applicable to their membership as defined by that professional body”. APES 205 therefore applicable, to and mandatory for, accounting professionals who are members of CPA Australia, Chartered Accountants Australia and New Zealand or the Institute of Public Accountants. This includes accountants working in accounting firms (of all sizes), the corporate sector and in government.

²⁹ Paragraph 1.3 of APES 205

of AASB 1054 would however still be required to include some kind of statement of compliance with the R&M requirements in AAS in their SPFS, thus satisfying the Board's objective for this project. This is because a person involved in the preparation, presentation, audit, review or compilation of the SPFS that are required in accordance with legislation or other authority is likely to be a member of a professional accounting body and therefore subject to professional obligations including those in APES 205. Refer to paragraphs 47-50 below also.

- 39 Therefore, at this juncture, staff recommend that the contemplated amendment should only be directly imposed by the Board on entities preparing SPFS that are caught by the application paragraph of AASB 1054 (and continue to leave it to other relevant legislation or other relevant authority to determine whether other entities subject to that legislation/authority should also comply, as would currently be the case for ACNC regulated entities, and potentially, albeit even more indirectly, through APES 205).

Question for the Board:

- Q3. Does the Board agree that the contemplated amendment should only be directly imposed by the Board on entities preparing SPFS that are caught by the current application paragraph of AASB 1054, and should continue to leave it to other legislation and / or regulators to determine whether other entities within their remit should be required to comply with AASB 1054?

Issue 2: What information about compliance with AAS should be required to be disclosed in SPFS?

- 40 When considering what particular information about compliance with AAS should be required by the contemplated amendment staff considered a range of possible types of disclosures, including the advantages and disadvantages of each:

Possible disclosure	Advantages	Disadvantages
<p>1. The disclosure of 'contextual' information.</p> <p>a. whether the entity is an individual entity without any subsidiaries (with or without investments in associates or joint ventures) or a parent entity of a group (with or without investments in associates or joint ventures),</p> <p>b. if a parent, are the financial statements:</p> <p>i. consolidated, and if so, whether or not they</p>	<p>✓ This information sets the scene for subsequent disclosures. For example, is the entity a parent and therefore would consolidated financial statements prepared consistent with AASB 10 either supplement unconsolidated financial statements or be more relevant than unconsolidated financial statements, or would it be relevant for the entity to have applied equity accounting to their investments in associates and joint ventures.</p> <p>✓ If this information is provided, it will not be necessary for the Board</p>	<p>✗ Some might be concerned about the volume of disclosures, or the knowledge required of AASB 10 to make the disclosures</p>

Possible disclosure	Advantages	Disadvantages
<p>consolidate all entities that would be consolidated if AASB 10 were to be applied; or</p> <p>ii. unconsolidated, and if so whether or not:</p> <p>A. the non consolidation is consistent with the entity’s assessment that it is not subject to AASB 10;</p> <p>B. the non consolidation is consistent with the exemptions in paragraphs 4(a), Aus4.1, Aus4.2 and 4B of AASB 10; and</p> <p>C. consolidated financial statements are available and where they can be accessed.</p>	<p>to address the question of whether consolidation is R&M or P&D.</p> <p>✓ Not an onerous requirement (particularly relative to the benefits that would flow to users).</p>	
<p>2. Disclosure regarding the extent of compliance with AAS, for example “the entity has complied with all R&M requirements in AAS, except for XX ...” or “the entity has only complied with the R&M requirements of AASB Y and AASB Z and adopted the following other significant accounting policies ...” or “the entity has complied with all AAS except the disclosures in AASB X and AASB Y ...”.</p>	<p>✓ Users are informed regarding the extent of compliance with the R&M requirements in AAS and can make adjustments for non-compliance to the extent the level of information disclosed allows, should they choose.</p>	<p>✗ If R&M compliance is minimal, it may be difficult for users to understand (i.e. if the entity has only complied with AASB Y and AASB Z, what does that mean?).</p> <p>✗ Significant judgement might be required of preparers regarding the extent or otherwise of compliance with R&M requirements in AAS.</p> <p>✗ Depending on how the disclosure is made, it could be quite lengthy.</p>
<p>3. A binary statement regarding compliance or non-compliance with all R&M, for example either that “the entity has complied with all R&M requirements in AAS ...” or “the entity has not complied with all R&M requirements in AAS ...”</p>	<p>✓ Preparers may be required to exercise less professional judgement as they either state they have or have not complied in totality.</p> <p>✓ In comparison with possible disclosure 4, users are told directly whether or not R&M requirements in AAS are complied with.</p>	<p>✗ Due to the low levels of R&M compliance in the NFP space in current practice for example, this disclosure may not be useful in relation to a significant number of entities only being required to explicitly state they have not complied.</p> <p>✗ It will be difficult for users to discern the extent of R&M</p>

Possible disclosure	Advantages	Disadvantages
		compliance if the statement is limited to just non-compliance.
4. A statement of compliance with all R&M requirements in AAS that is, no statement would be required if an entity did not comply with all R&M requirements in AAS.	<ul style="list-style-type: none"> ✓ It is clear to users which SPFS comply with all R&M requirements in AAS. ✓ It is consistent with the positive-assertion type of disclosure currently required by paragraph 7 (and RDR7.1) of AASB 1054 regarding compliance with AAS. 	<ul style="list-style-type: none"> ✗ If an entity does not make the disclosure, users could not discern the reason for non-compliance, that is, is it an R&M non-compliance or the omission of a disclosure requirement for example.

41 At the February 2019 meeting, the Board decided to “...consider whether entities should be required to include a statement of compliance with recognition and measurement requirements of Australian Accounting Standards ...” but did not expand on the nature of such a statement. On weighing up the advantages and disadvantages identified in the above table and costs/benefits, staff prefer Possible Disclosures 1 and 2 as the most appropriate way to achieve the Board’s objective of mandating a suitable statement of compliance with the R&M requirements in AAS in SPFS.

42 Depending on how the contemplated amendment is specified (for example, if Possible Disclosure 1 is not adopted), the question could arise as to whether the Board needs to articulate whether consolidation is R&M or P&D for the purposes of Possible Disclosure 2. Anecdotally, given the diversity in views regarding whether consolidation is R&M or P&D for example, preparers might require clarification regarding whether or not the application of AASB 10 and the preparation of consolidated financial statements is a R&M requirement. Therefore if a parent entity has prepared unconsolidated financial statements (and did not meet any of the AASB 10 exemption requirements) there could be uncertainty regarding whether they can validly state compliance with the R&M requirements in AAS.

43 It is staffs’ view that if the contextual information suggested under Possible Disclosure 1 is disclosed it is not necessary for the Board to address this matter at this time. However, if this view is rejected, to help facilitate any further discussion the Board might want to undertake on the issue, staff have included in Appendix C matters that could be pertinent in deciding whether consolidation is a R&M requirement, a P&D requirement, neither or both. We do not intend discussing that Appendix during the forthcoming meeting, unless the Board wishes to do so.

Question for the Board:

Q4. Does the Board agree with the staff recommendation in paragraph 41, that on balance Possible Disclosures 1 and 2 are the most appropriate alternatives to achieve the objective of the Board’s February 2019 decision to require disclosure of a statement of compliance with the R&M requirements in AAS in SPFS? If no, which of the other Possible Disclosures (or other possibilities) does the Board prefer?

- 44 Paragraph 53 of this paper outlines staffs' suggested timeline to progress the contemplated amendment, noting that staff suggest preparing an Exposure Draft (ED) for issue in June 2019. To assist staff to meet the suggested timeline, some preliminary suggested drafting to give effect to Possible Disclosures 1 and 2 is provided in Appendix A (mark ups highlight amendments to the current drafting in AASB 1054) for the Board's consideration and to help focus the discussion, subject to any decisions made by the Board during this meeting.

Question for the Board:

- Q5. On the assumption the Board agrees with the staff recommendation outlined in paragraph 41, does the Board agree with the suggested drafting in Appendix A of this paper to give effect to the contemplated amendment to AASB 1054? If not, what amendments does the Board suggest?

- 45 To assist preparers in making the disclosures contemplated in paragraph 44, staff have suggested some illustrative examples and a decision tree to be attached to AASB 1054 as non-mandatory material. The suggested illustrative examples and decision tree are also included in Appendix A.

Question for the Board:

- Q6. On the assumption the Board broadly agrees with the staff preliminary suggestion for amendments to the drafting of AASB 1054 outlined in in the first part of Appendix A of this paper, does the Board agree with the illustrative examples and decision tree suggested by staff in the second and third part of that Appendix A, and does the Board agree that they should be attached to AASB 1054 as non-mandatory material? If not, what does the Board prefer?

Issue 3: Other related matters considered

Interaction of the contemplated amendment with other jurisdictions and pronouncements

IFRS Standards

- 46 Another factor to consider is whether there would be any broader implications from this contemplated amendment that would need to be considered. For example, if the disclosure requirement is expressed only in terms of stating compliance with R&M, as noted in paragraph 42 above, consideration might need to be given to clarifying the meaning of R&M (vis a vis P&D) on the basis that some consider that it is not clear whether consolidation is 'R&M' or 'P&D' (or neither or both). Therefore, consideration needs to be given to whether it would be necessary for the Board to articulate what R&M is, and in particular whether consolidation is R&M. Consistent with the for-profit and NFP standard setting frameworks, this consideration would need to have regard to whether there would be any implications for consistency with

International Accounting Standards Board (IASB) thinking, if the IASB has not explicitly opined on that issue.³⁰

Other pronouncements

- 47 AASB Staff met with APESB staff to discuss the interplay between the contemplated disclosure and the requirement in paragraph 6.1(c) of APES 205.
- 48 As noted in paragraph 11 above, APES 205 requires disclosure of the significant accounting policies adopted in the preparation and presentation of SPFS. As noted in paragraph 37 above, APES 205 also sets the standards for specified accountants involved with the preparation, presentation, audit, review or compilation of financial statements (either GPFS or SPFS) of entities in the private and public sectors. APES 205 contains mandatory requirements and also discussion or explanatory requirements³¹. From discussions with APESB staff, AASB staff understand, it is the intention of APES 205 to govern those financial statements outside the scope of the Corporations Act prepared by members, therefore it is expected that the requirements of APES 205 would apply to a significant number of SPFS.
- 49 AASB staff discussed with APESB staff whether:
- (a) they foresee any issues or unintended consequences from the AASB making the contemplated amendment to AAS now, including whether there may be an element of 'conflict' or 'confusion' between the contemplated disclosure and the current APES 205 requirement to disclose the significant accounting policies of the entity; and
 - (b) it would be possible to amend APES 205 to require in addition to a statement of the significant accounting policies adopted, a statement regarding the extent of compliance with the R&M requirements in AAS, consistent with the contemplated amendment to paragraph 7A of AASB 1054 (see the first part of Appendix A of this paper).
- 50 Staff note it is reasonable to expect the disclosure requirements of APES 205 align with the disclosure requirements of AAS. For this reason, as noted in paragraph 37 above, we understand APESB staff intend discussing the contemplated amendment to AAS with the APESB in due course with a view to the APESB considering whether to make a similar amendment to APES 205, subject to due process. Consideration would also be expected to be given to whether any amendment to APES 205 should have an effective date that is consistent with the suggested effective date of the contemplated amendment to AAS (refer paragraph 53 below).

³⁰ AASB staff liaised with IASB staff to ascertain the extent to which the IASB has made any comments on its view about the nature of consolidation vis a vis 'R&M' vs 'P&D'. IASB staff noted that they were not aware of the matter being discussed explicitly at any point. See also Appendix C of this paper.

³¹ Paragraph 1.3 of APES 205.

Informal outreach

51 Staff have scheduled targeted outreach with financial statement users with the overarching objective being to understand whether the contemplated amendment and Possible Disclosures 1 and 2 provide sufficient clarity as to what has been done in the financial statements and whether this information is useful to them. At the date of submitting this paper for mail out, staff had not yet had the opportunity to hold any such meetings, however plan to provide the Board with a verbal update at the Board meeting. Staff also anticipate undertaking additional outreach after the Board meeting, which will provide an opportunity to get preliminary reactions from constituents to any differences to those possible disclosures the Board might prefer.

Next steps

52 Paragraph 26 of the for-profit standard-setting framework states that differences between accounting standards issued in Australia and New Zealand should be minimised wherever possible to reduce the costs for trans-Tasman entities. Subsequent to this Board meeting, staff will discuss the proposals and Board decisions with External Reporting Board (XRB) staff.

Timeline to progress these 2 proposals

53 Staff suggest the below timeline to progress the contemplated amendment, subject to any decisions made at this meeting by the Board:

Task	Date
Discuss the contemplated amendment and Board decisions with XRB staff.	May
Draft the ED	May
Staff to undertake targeted outreach to garner feedback on the contemplated amendment and disclosure.	May – October
Staff to circulate ballot draft of the ED to the Board out of session with a two-week voting period.	6 June. Comments due by 17 June
If necessary, Staff to update the ballot draft of the ED for comments received from Board.	17 - 19 June
Issue the ED for public comment with a 3 month comment period.	20 June. Comments due by 1 October
Staff to analyse and summarise the ED submissions and present a summary along with the proposed amending standard to the Board.	November Board meeting <i>(To ensure staff have sufficient time to appropriately consider all responses, the proposed timing is subject to the nature and number of comments received from respondents)</i>
Staff to update the proposed amending standard based on the Board’s feedback.	25 November – 5 December

Task	Date
Staff to circulate ballot draft of the proposed amending standard to the Board out of session with a two-week voting period.	5 December. Comments due by 16 December
If necessary, Staff to update the proposed amending standard for comments received from Board members.	16 – 23 December
Issue the amending standard effective for annual reporting periods beginning on or after 1 January 2020.	23 December

Appendix A

Staff preliminary suggestions for drafting the amendments: amendments to AASB 1054, possible illustrative examples and a decision tree that could assist in applying the amendments (intended to be discussed in the Board meeting only if the Board agrees in principle with the staff recommendations summarised in paragraphs 17 and 18 of this paper)

Suggested amendments to AASB 1054

AASB 1054 Australian Additional Disclosures

Compliance with Australian Accounting Standards

- 7 An entity whose ~~general purpose financial statements~~financial statements comply with Australian Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes to those general purpose financial statements. An entity shall not describe general purpose financial statements as complying with Australian Accounting Standards unless they comply with all the requirements of Australian Accounting Standards.
- RDR7.1 An entity whose ~~general purpose financial statements~~financial statements comply with Australian Accounting Standards – Reduced Disclosure Requirements shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe general purpose financial statements as complying with Australian Accounting Standards – Reduced Disclosure Requirements unless they comply with all the requirements of Australian Accounting Standards – Reduced Disclosure Requirements.**
- 7A Unless already included in the notes relating to significant accounting policies disclosed in accordance with AASB 101 *Presentation of Financial Statements*, an entity preparing *special purpose financial statements* shall disclose in the notes:
- (a) whether or not the entity is a parent entity as defined in AASB 10 *Consolidated Financial Statements*;
 - (b) if the entity is a parent entity, whether the financial statements are:
 - (i) consolidated, and if so, whether or not they consolidate all entities that would be consolidated if AASB 10 were to be applied; or
 - (ii) unconsolidated, and whether or not:
 - A. their non consolidation is consistent with the entity's assessment that it is not subject to AASB 10;

- B. their non-consolidation is consistent with the exemptions in paragraphs 4(a), Aus4.1, Aus4.2 and 4B of AASB 10; and
- C. consolidated financial statements are available and where they can be accessed;³²
- (c) whether or not the entity has investments in an associate or joint venture as defined in AASB 128 *Investments in Associates and Joint Ventures*, and whether or not they have been accounted for in a manner consistent with AASB 128; and
- (d) the extent to which the entity's accounting policies are consistent with the recognition and measurement requirements in Australian Accounting Standards in preparing the consolidated or unconsolidated *special purpose financial statements* about which the above disclosures are being made.

Suggested illustrative examples

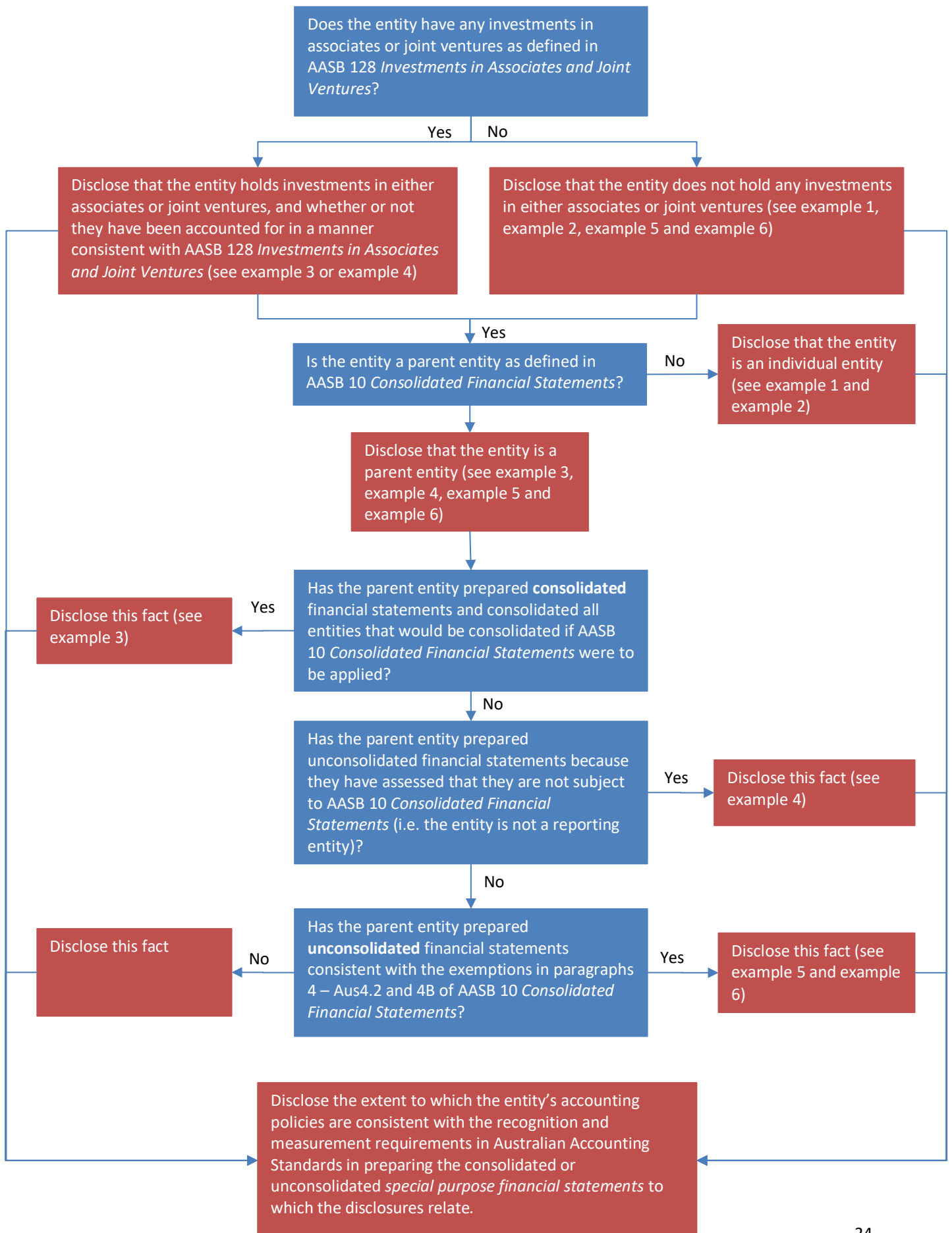
E.G.	Illustrative disclosure required by paragraphs 9 and 7A of [draft amended] AASB 1054
1.	<p>ABC Pty Ltd has prepared special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These special purpose financial statements have therefore been prepared to satisfy the directors reporting requirements under the <i>Corporations Act 2001</i>. ABC Pty Ltd is an individual entity and does not hold any investments in subsidiaries, associates or joint venture entities.</p> <p>These special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards [except for XX ...].</p>
2.	<p>XYZ Limited has prepared special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These special purpose financial statements have therefore been prepared to satisfy the directors reporting requirements under the <i>Corporations Act 2001</i>. XYZ Limited is an individual entity and does not hold any investments in subsidiaries, associates or joint venture entities.</p> <p>These special purpose financial statements comply only with the recognition and measurement requirements of AASB XX and have adopted the other significant accounting policies outlined [provide appropriate cross-reference].</p>
3.	<p>LMN Ltd has prepared consolidated special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These consolidated special purpose financial statements have therefore</p>

³² Disclosure of this information is consistent with the requirement in paragraph 16(a) of AASB 127, therefore staff have included it in the suggested amendments to AASB 1054 for the sake of completeness.

E.G.	Illustrative disclosure required by paragraphs 9 and 7A of [draft amended] AASB 1054
	<p>been prepared to satisfy the directors reporting requirements under the <i>Australian Charities and Not-for-profits Commission Act 2012</i>.</p> <p>LMN Ltd is a parent entity and has, consistent with AASB 10 <i>Consolidated Financial Statements</i>, prepared consolidated financial statements. LMN Ltd holds an investment in a joint venture entity. Refer to accounting policy (xx) for the accounting policy that has been applied in the preparation of these special purpose financial statements for that investment.</p> <p>These consolidated special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards [except for XX ...].</p>
4.	<p>RST Ltd has prepared special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These special purpose financial statements have therefore been prepared to satisfy the directors reporting requirements under the <i>Corporation Act 2001</i>.</p> <p>RST Ltd is a parent entity and has prepared unconsolidated financial statements as the group does not consider itself to be a reporting entity and therefore consolidated financial statements are not available. RST Ltd holds an investment in an associate. Refer to accounting policy (xx) for the accounting policy that has been applied in the preparation of these special purpose financial statements for that investment.</p> <p>These unconsolidated special purpose financial statements comply only with the recognition and measurement requirements of AASB XX and have adopted the other significant accounting policies as outlined [provide appropriate cross-reference].</p>
5.	<p>EFG Pty Ltd has prepared special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These special purpose financial statements have therefore been prepared to satisfy the directors reporting requirements under the <i>Corporation Act 2001</i>.</p> <p>EFG Pty Ltd is a parent entity. It has prepared unconsolidated financial statements consistent with the exemptions from preparing consolidated financial statements outlined in AASB 10 <i>Consolidated Financial Statements</i>, and consolidated financial statements are not available.</p> <p>[Although the following disclosure is not mandatory, EFG Pty Ltd might chose to add the following: EFG Pty Ltd’s ultimate parent entity HIJ Limited, which is incorporated and domiciled in the United Kingdom, has prepared consolidated financial statements that comply with International Financial Reporting Standards. These consolidated financial statements incorporate EFG Pty Ltd and its subsidiaries, and are available from HIJ Limited’s website (www.hij.co.uk).]</p> <p>EFG Pty Ltd does not hold any investments in associates or joint venture entities.</p> <p>These unconsolidated special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards [except for XX ...].</p>
6	<p>JKL Ltd has prepared special purpose financial statements as in the opinion of the directors, there are unlikely to exist users of these financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. These special purpose financial statements have therefore been prepared to satisfy the directors reporting requirements under the <i>Corporation Act 2001</i>.</p> <p>JKL Ltd is a parent entity and, consistent with paragraph 4B of AASB 10, has prepared unconsolidated financial statements [although not required, JKL Ltd could chose to provide further explanation such as: as it is an investment entity and has measured all of its</p>

E.G.	Illustrative disclosure required by paragraphs 9 and 7A of [draft amended] AASB 1054
	subsidiaries at fair value (refer to accounting policy (yy))). JKL Ltd does not hold any investments in associates or joint venture entities. These unconsolidated special purpose financial statements comply with all recognition and measurement requirements in Australian Accounting Standards [except for ...].

Suggested Decision Tree



Appendix B

Extracts from the NFP standard-setting framework (for Board members' information)

When might NFP-specific standards or guidance be justified?

- 25 The primary purpose and benefit of NFP-specific standards, amendments, guidance or examples is to improve the information provided to users of an NFP entity's financial statements. NFP issues may affect NFP entities in either the public sector, the private sector, or both.
- 26 The AASB uses professional judgment in reaching its conclusions about NFP-specific standards, amendments, guidance or examples. As part of its normal standard-setting due process, reasons for conclusions in relation to NFP-specific standards, amendments, guidance or examples will be documented in the related Basis for Conclusions, which will also document the extent the Standard differs from IFRS Standards and IPSASB Standards (where applicable).
- 27 AASB's disagreement with the IASB's treatment is unlikely to provide a good reason, in and of itself, for changing the requirement in an IFRS Standard.
- 28 Justifiable circumstances may include:
- (a) financial reporting inadequately reflecting the objectives and qualitative characteristics of financial reporting as set out in the *Framework for the Preparation and Presentation of Financial Statements (Conceptual Framework)*¹⁷;
 - (b) user information needs not addressed – eg NFP reporting not adequately reflecting that:
 - (i) resource providers and service recipients are users¹⁸ (eg AASB 1058);
 - (ii) users of an NFP entity's financial statements may also require information on non-financial accountability and stewardship, not just financial returns (eg AASB 1055 *Budgetary Reporting*, and for all NFP entities, service performance reporting, addressing the quality of the goods and services produced and information about outputs/outcomes that may be non-financial); and
 - (iii) NFP entity assets are generally held for their service potential not cash generation (eg amendments to AASB 136 *Impairment of Assets*, AASB 140 *Investment Property*);
 - (a) the prevalence and magnitude of NFP-specific transactions, circumstances and events results in NFP entities' reported performance or financial position not reflecting economic reality (eg transfers of assets at significantly less than fair value primarily to enable a NFP entity to achieve its objectives, and for public

17 See Chapter 1 and Chapter 3 in the Appendix to the [Conceptual Framework](#).

18 The AASB [Conceptual Framework](#) identifies users as suppliers of resources, whereas the IPSASB [Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities](#) includes both suppliers of resources and service recipients.

- sector entities, the provision of social benefits and related sustainability and sovereign power issues);
- (b) Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees). Such disclosures must:
 - (i) meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework;
 - (ii) have strong user support;
 - (iii) deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness; and
 - (iv) no other existing legislative or voluntary reporting frameworks provide the information or are more appropriate avenues to obtain the information;
 - (c) NFP application issues resulting from terminology differences and current practice issues, differences in the accountability or regulatory framework, governance or financial management differences or alignment with other financial frameworks;
 - (d) undue cost or effort of preparing and disclosing information outweigh the benefits. For example, when there are existing legislative requirements for different but similar information for similar purposes (eg government finance statistics in the public sector), differences in resources available to NFP entities when implementing the requirements, mixed groups with both for-profit and NFP entities needing to amend accounting on consolidation, or the prevalence and magnitude of the transactions in the NFP sector mean the basis for the IASB's considerations of undue cost or effort for for-profit entities is not valid for NFPs; and
 - (e) incompatibility with existing NFP standards – applying IFRS Standards results in inconsistency with other existing NFP-specific standards and guidance or the Conceptual Framework.

Appendix C

Matters that could be pertinent in deciding whether consolidation is R&M, P&D, neither or both (for Board members' information)

Extracts from the Basis for Conclusions accompanying [ED 277 Reduced Disclosure Requirements for Tier 2 Entities](#)

- 54 Staff note that the Basis for Conclusions accompanying ED 277 sets out the matters considered by the Board when they were considering how to distinguish between a presentation and a disclosure requirement in AAS. The relevant extracts have been reproduced in this Appendix for ease of reference. While in developing the ED 277 proposals, the Board did not address what constituted a R&M (vis a vis P&D) requirement, as it was not relevant, the style of discussion used in ED 277 could be a useful starting point should the Board decide clarification is now required.

Presentation Vs Disclosure

- BC43 The Boards decided that an objective of the proposed RDR decision-making framework is that the face of the financial statements of Tier 1 and Tier 2 entities should display the same information. As a consequence the RDR framework does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1. It is concerned only with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.
- BC44 Requirements are considered to be presentation requirements if they:
- (a) specify the broad structure of the financial statements, including the basis of classification of items; and
 - (b) address additional line items, disaggregation and subclassification of line items on the face of the primary financial statements.
- BC45 Presentation requirements are not subjected to analysis under the proposed RDR framework.
- BC46 Requirements are considered to be disclosure requirements if they:
- (a) specify additional line items and disaggregation to be disclosed in the notes; and
 - (b) may be provided either on the face of the financial statements or in the notes.
- BC47 Disclosure requirements are subjected to analysis under the proposed RDR framework.

Issues that are potentially pertinent to deciding whether consolidation is R&M, P&D, both or neither

- 55 As noted in paragraph 42 of this paper, there are differing views as to whether consolidation is a R&M or P&D requirement, and staff undertook research to identify whether this matter has previously been addressed, whether explicitly or implicitly, by the either the IASB or its staff or the AASB or its staff.
- 56 In undertaking this research staff considered:
- (a) the *Conceptual Framework for Financial Reporting*, and in particular Chapter 3 – Financial statements and the reporting entity;
 - (b) the Basis for Conclusions accompanying *International Financial Reporting Standards for Small and Medium-Size Entities* (IFRS for SMEs), as well as the June 2014 Discussion Paper [Preliminary Views on Accounting Standards for](#)

[Small and Medium-sized Entities](#), the February 2007 Exposure Draft [IFRS for Small and Medium-sized Entities](#) and accompanying Basis for Conclusions and meeting summaries and observer notes from IASB meetings;

- (c) the Basis for Conclusions accompanying IFRS 1 *First-time Adoption of International Financial Reporting Standards*;
- (d) AASB 10, IFRS 10 *Consolidated Financial Statements* and the Basis for Conclusions accompanying IFRS 10;
- (e) AASB 3 *Business Combinations*, IFRS 3 *Business Combinations* and the Basis for Conclusions accompanying IFRS 3;
- (f) accounting manuals and handbooks prepared by large accounting firms;
- (g) minutes of previous AASB Board meetings;
- (h) previous AASB staff papers and staff responses to technical enquiries from constituents (captured in a 'phone query database'); and
- (i) ITC 39.

AASB staff liaised with IASB staff to ascertain the extent to which the IASB has made any comments on its view about the nature of consolidation vis a vis 'R&M' vs 'P&D'. IASB staff noted that they were not aware of the matter being discussed explicitly at any point including during the drafting of IFRS 10. IASB staff did however informally observe that Chapter 3 of the *Conceptual Framework for Financial Reporting* treats the question of whether to consolidate as a question of defining the boundaries of the reporting entity. They went on to comment, albeit not definitively, that this could imply that consolidation is neither R&M, nor P&D, and arguably may even be more fundamental than 'just' recognition, measurement, presentation or disclosure.

Another perspective may be that consolidation covers all principles; that is, it is recognition, measurement, presentation and disclosure.

57 Despite the research undertaken, staff were unable to find evidence that this matter had previously been explicitly considered or addressed (either by the IASB or the AASB).

58 Staff did however note that there are instances in ITC 39, which when discussing the medium term approach (to ultimately remove the ability for entities to prepare SPFS), ITC 39 stated as follows:

"... the Tier 2 framework in AASB 1053 will be revised to include one of the following alternatives ...

- (i) Alternative 1: GPFS – Reduced Disclosure Requirements (RDR) – Existing Tier 2 **(full recognition and measurement** with reduced disclosures from each

Accounting Standard, **includes consolidation and equity accounting where applicable**) ...” (emphasis added).³³

59 ITC 39 also notes a proposed amendment to AASB 1053 resulting from Phase 1:

“Tier 2 comprises the recognition and measurement requirements of Tier 1 (including consolidation and the equity method of accounting) but substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position under Tier 1², the presentation requirements under Tier 1 and Tier 2 are the same.”³⁴

60 While it is possible that some may read this language as an implicit statement that consolidation and equity accounting are R&M requirements, it is staff understanding that the intention of the drafting was not to imply whether or not consolidation is a R&M requirement, it was drafted as such to ensure it was clear that under the ITC 39 proposals when preparing Tier 2 GPFS, entities would be required to apply consolidation and equity accounting where applicable.

61 When considering the requirements of AASB 10, IFRS 10 and the Basis for Conclusions accompanying IFRS 10, staff note there are references to “presentation”, as well as “recognised” and “recognition and measurement”. For example:

The objective of AASB 10 is “... to establish principles for the **presentation** and preparation of consolidated financial statements when an entity controls one or more other entities” (emphasis added).³⁵

Paragraph B88 of AASB 10 refers to the ‘recognition’ of amounts in the consolidated financial statements “... Income and expenses of the subsidiary are based on the amounts of the assets and liabilities **recognised in the consolidated financial statements** at the acquisition date. For example, depreciation expense **recognised in the consolidated statement of comprehensive income** after the acquisition date is based on the fair values of the related depreciable assets **recognised in the consolidated financial statements** at the acquisition date” (emphasis added).

When discussing the accounting treatment of changes in ownership interests and rejecting a proposed alternative treatment, paragraph BCZ173 of the Basis for Conclusions accompanying IFRS 10 notes “... inconsistent with the Board’s decision in IFRS 3 *Business Combinations* (as revised in 2008) that obtaining control in a business combination is a significant economic event. That event causes the initial **recognition and measurement** of all the assets acquired and liabilities assumed in the business combination ...” (emphasis added).

³³ Paragraphs, 14, 71 and 166 of ITC 39.

³⁴ Appendix A of ITC 39

³⁵ AASB 10, paragraph 1

- 62 When considering the requirements of AASB 3, IFRS 3 and the Basis for Conclusions accompanying IFRS 3, staff note there are references to “recognises” and “recognising”. For example:
- The Basis for Conclusions accompanying IFRS 3 notes “... The acquirer purchases or otherwise obtains control over net assets and **recognises** in its financial statements the assets acquired and liabilities assumed, including those not previously recognised by the acquiree. ... In addition, by initially **recognising** almost all of the assets acquired and liabilities assumed at their fair values ...” (emphasis added).
- 63 When considering the accounting manuals and handbooks prepared by large accounting firms, staff note “Deliberations surrounding the issued IFRS for SME standard considered that **consolidation is a recognition and measurement as well as a disclosure requirement**” (emphasis added).³⁶
- 64 Irrespective of the fact that the matter is not addressed explicitly or implicitly (that staff could find) in IFRS Standards or that there are divergent views, staff do not consider that the contemplated amendment or requiring the proposed disclosure would have any implications on the consistency of AAS with IFRS Standards, as the nature of the contemplated disclosure put forward by staff in this paper cannot be construed as being an ‘interpretation’ (either explicit or implicit) regarding whether or not consolidation is a R&M or P&D requirement.
- 65 While staff do not think it is necessary for the Board to address whether consolidation is R&M or P&D for the purposes of the contemplated disclosure, staff note that some respondents to Phase 2 of ITC 39 noted a potential issue regarding whether the transition scenarios in Appendix D of AASB 1053 adequately address what to do if an entity’s most recent SPFS were unconsolidated however complied with R&M in all other respects. Agenda item 6 – Removal of SPFS for FP entities - Transitional relief considers this matter in more detail.

³⁶ Australian Financial Reporting Manual, Department of Professional Practice, June 2015, KPMG. Staff have however been unable to locate such deliberations in the minutes of IASB meetings where IFRS for SMEs was discussed.