Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Conceptual Framework for Financial Reporting – Amendments**	**Meeting**	M167
Topic:	**Options for implementing Phase 1**	**Agenda Item**	9.1
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INTRODUCTION AND OBJECTIVE OF THIS PAPER

1. The objective of this paper is for the Board to:
   — confirm the most viable approach to implement Phase 1: Short-term approach (Phase 1) of *ITC 39 Consultation Paper – Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* (ITC 39); and
   — agree to the use of AusCF paragraphs to highlight the paragraphs applicable to those not claiming IFRS compliance in order to make the transition to Phase 2[1] easier to implement.

2. Phase 1 of ITC 39, implements the *Conceptual Framework for Financial Reporting* (RCF – Revised Conceptual Framework) for for-profit entities that have public accountability that are required to comply with Australian Accounting Standards and other for-profit entities voluntarily claiming compliance with International Financial Reporting Standards (IFRS). Implementation of the RCF via Phase 1 allows such entities to maintain IFRS compliance. ITC 39 proposes having two separate Conceptual Frameworks and one set of Australian Accounting Standards and Interpretations (AAS). However, ITC 39 is aimed at the 'reporting entity' concept conflicts, is meant to be a short term solution and doesn't contemplate the other ongoing changes that will impact recognition and measurement requirements in AAS. This paper examines in detail how to address the ongoing challenges with the proposed solutions.

3. Of the wide range of conceivable options, Staff have considered in more detail the four most feasible options for applying AASs when Phase 1 is implemented. A summary of each option is outlined here.

4. This Staff Paper introduces the following acronyms.
   — **FPPAE** refers to for-profit entities that have public accountability that are required to comply with Australian Accounting Standards and other for-profit entities that elect to apply the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) and the consequential amendments to other pronouncements set out in AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework*[2].
   — **Other entities** refers to entities other than FPPAE.

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[1] Phase 2 of ITC 39 implements the RCF for all entities required by legislation or otherwise to prepare financial statements that comply with AAS.

[2] The application paragraph of the RCF will refer to for-profit entities that have public accountability that are required to comply with Australian Accounting Standards, as there may be entities that are considered publicly accountable that are not required to comply with AAS. For example, a securitised trust may be considered publicly accountable, however the Trust Deed may not require compliance with AAS and therefore such entities would not be captured by this requirement.

STAFF RECOMMENDATION

5. Of the four options considered in this paper, Staff recommend the Board confirm Option 1 as proposed in ITC 39.

6. Under Option 1 there would be two conceptual frameworks; the RCF which would be applied by FPPAE and the *Framework for the Preparation and Presentation of Financial Statements* (CF – current Conceptual Framework) which would be applied by other entities. Under Option 1 there would be one set of AAS which would apply to all entities. Where an AAS is amended as a result of the RCF, the existing AAS requirements will be included in the amended AAS via an AusCF paragraph that will apply only to other entities. Ongoing amendments to AAS regarding recognition and measurement will be processed as they occur for all entities. See below for further explanation.

7. Staff are of the view that Option 1 is the most appropriate as the application of the two conceptual frameworks (the RCF and the CF) is clearly defined, Option 1 results in only one set of AAS and Option 1 will be straightforward to 'unwind' when implementing Phase 2. Option 1 also addresses the two definitions of the term reporting entity and is less likely to create confusion amongst constituents. It also means that other entities will not need to apply the new recognition and measurement requirements in the RCF in circumstances where an AAS does not address an issue until Phase 2 is resolved (i.e. the CF is frozen for other entities). It also means that there is no need to consider whether other aspects of the RCF will need to be amended to accommodate retaining SAC 1[3] and the Australian definition of the term reporting entity.

8. While Option 2 results in a single conceptual framework (i.e. the RCF is applied either in full or in part by all entities), and addresses the two definitions of the term reporting entity, Option 2 is more likely to create confusion amongst constituents, as it will be less clear which elements of the RCF apply to FPPAEs and which don’t. Also, other entities will need to apply the new recognition and measurement requirements in the RCF in circumstances where an AAS does not address an issue (i.e. the RCF is not frozen). In addition, extensive work would be required to review all aspects of the RCF to see what other changes may be necessary to enable continuation of the Australian definition of the term reporting entity. Those stakeholders wanting to retain the option for special purpose financial statements are likely to prefer Option 2.

9. Staff do not consider Option 3 or Option 4 to be viable as both options result in two sets of AAS which would be complex to manage (e.g. future compilations) and would present a much greater level of confusion for stakeholders in knowing which set of AAS to use as well as other challenges when implementing Phase 2.

DRAFTING OF EACH OPTION

10. To implement any of the four options, Staff recommend the introduction of new paragraphs (and related footnotes) prefixed with ‘AusCF’ to apply to those entities not needing compliance with IFRS in Phase 1. AusCF paragraphs will be equivalent to Aus and RDR paragraphs which are currently used in AAS, as they introduce Australian specific requirements into AAS. AusCF paragraphs will be used in place of Aus paragraphs to make the implementation of Phase 2 more straight forward, as under Phase 2 all AusCF paragraphs will be removed[4]. On implementation of Phase 2, the removal of AusCF paragraphs will occur via an amending standard that withdraws the AusCF paragraphs[5].

11. The basic text of all AAS will remain IFRS compliant, that is, it will be word for word the same as IFRS. The basic text will apply to all for-profit entities applying Tier 1 – Australian Accounting Standards in accordance with AASB 1053 (Tier 1) used to distinguish between those requirements that are to be applied by Tier 1 entities applying the RCF, and those to be applied by all other entities applying the CF. AusCF paragraphs will be used for other entities.

[3] Statement of Accounting Concepts 1 *Definition of the Reporting Entity*

[4] To implement Phase 2, the Board will need to separately consider any amendments to the RCF which will be necessary to enable NFP entities to apply the RCF. These amendments will be included via Aus paragraphs consistent with the CF.

[5] When determining the most appropriate approach to Phase 1, Staff considered whether it was more appropriate to leave the basic text of each AAS unamended, and introduce the IASB’s consequential amendments via RCF paragraphs that would apply only to those entities applying the RCF. While this approach would result in IFRS compliance, Staff determined that this approach was not appropriate as it would not demonstrate AAS compliance with IFRS as clearly – as a reminder the AASB moved away from AIFRS to AAS and requires a separate statement of compliance with AAS and IFRS to address international perceptions that AIFRS was not IFRS compliant. Making it more difficult to see that IFRS text has been adopted unamended would likely result in renewed perceptions that AAS is not IFRS compliant.

12. AusCF paragraphs will not adopt the same numbering convention as existing Aus and RDR paragraphs; that is they would not be numbered in an X.X format and would instead be numbered in an X format.

13. Paragraph AusCF1 will outline that the requirements of AusCF paragraphs and footnotes apply only to those entities that are not applying the RCF. It will also direct entities applying the CF to AASB 1053 for the definition of the term 'reporting entity'[6]. Staff propose the following wording for paragraphs AusCF1:

    The requirements of AusCF paragraphs and footnotes included in this Standard apply only to not-for-profit entities and for-profit entities other than those applying Tier 1: Australian Accounting Standards in accordance with AASB 1053 Application of Tiers of Australian Accounting Standards (Tier 1). For entities applying AusCF paragraphs, the term 'reporting entity' is defined in AASB 1053, and SAC 1 Definition of the Reporting Entity also applies. For-profit entities claiming IFRS compliance shall not apply AusCF paragraphs[7].

14. Additional AusCF paragraphs and footnotes will also be added throughout each AAS as required. Where an existing paragraph or footnote is amended as a result of the International Accounting Standards Board's (IASB's) consequential amendments, an additional paragraph or footnote will be inserted with the same paragraph or footnote number however it will be given an AusCF prefix. This paragraph or footnote will contain the requirements as they are currently stated in AAS applicable under the CF.

15. In addition to the IASB's consequential amendments, there are a number of domestic AAS which contain the term *Framework for the Preparation and Presentation of Financial Statements* or *Framework*. While these domestic AAS will not need to be updated for Tier 1 entities to maintain IFRS compliance, each instance will need to be assessed to determine if it is appropriate to update the term to instead be *Conceptual Framework for Financial Reporting* or *Conceptual Framework* when the RCF becomes applicable to all entities.

16. Paragraph AusCF1 will be inserted at the beginning of each AAS that contains the term reporting entity and each AAS amended by the IASB's consequential amendments. Paragraph AusCF1 may also be inserted into each AAS that contains the term *Framework for the Preparation and Presentation of Financial Statements* or *Framework* and that reference needs to be updated. It will be included immediately under the existing paragraph 1 of each AAS.

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6 While it is implied that the definition of the term 'reporting entity' for entities applying the RCF is within the RCF, Staff suggest the inclusion of a sign-post paragraph in AASB 1048 *Interpretation of Standards* for example to make this explicit.

7 Staff considered whether it was more appropriate to include the statement that 'For-profit entities claiming IFRS compliance may not use AusCF paragraphs' in one AAS such as AASB 1053 or AASB 1057, rather than duplicating it in each AAS, however felt it was prudent to include the statement in each AAS for the avoidance of doubt.

TABLE 1 – SUMMARY OF EACH OPTION CONSIDERED

	Option 1 – illustrative example here.	Option 2 – illustrative example here.	Option 3 – illustrative example here.	Option 4 – illustrative example here.
Conceptual Framework	Two conceptual frameworks	One conceptual framework	Two conceptual frameworks	One conceptual framework
FPPAE	RCF.	RCF.	RCF.	RCF.
Other entities	CF and SAC 1. CF is frozen.	RCF excluding Chapter 3[8], which is replaced by SAC 1.	CF and SAC 1. CF is frozen	RCF excluding Chapter 3, which is replaced by SAC 1.
Consequential amendments	One set of AASs that continues to be updated for both FP and NFP changes.	One set of AASs that continues to be updated for both FP and NFP changes.	Two sets of AASs - One set of AASs that continues to be updated for FP changes and one set reflecting the requirements in effect immediately pre RCF being issued which are not updated.	Up to two sets of AASs.
Initial Consequential amendments will be given effect through AASB 2018-X.	One set of AASs applicable to all entities. Initially, consequential amendments including those to application paragraphs of all AASs will be made to reflect the application of two conceptual frameworks using Australian specific AusCF paragraphs. Further paragraph AusCF1 will be inserted into each AAS that contains the term reporting entity to direct other entities to AASB 1053 (and SAC 1) for the definition of the term reporting entity[9].	One set of AASs applicable to all entities. Paragraph AusCF1 will be inserted into each AAS that contains the term reporting entity to direct other entities to AASB 1053 (and SAC 1) for the definition of the term reporting entity.	FPPAE: One set of AASs, incorporating all consequential amendments arising from the RCF. Other entities: Another set of AASs, reflecting the requirements of AASs as at the date the RCF is issued but not incorporating the consequential amendments arising from the RCF or subsequent changes to AAS. Where there are internal inconsistencies in the application / meaning of the term reporting entity in existing AAS, the Board will tolerate them. That is, unlike in Option 2, they will not be addressed via paragraph AusCF1.	FPPAE: One set of AASs, incorporating all consequential amendments arising from the RCF. Other entities: It is expected that the application of consequential amendments to other entities will be the same as FPPAE. However potentially, a mix of 'frozen' AASs and updated AASs may result (i.e. at the date the RCF is issued an assessment will be made regarding whether the IASB's consequential amendments are fundamentally affected by Chapter 3 of the RCF. Where the consequential amendments are fundamentally affected by Chapter 3, they will not be included in the affected AAS and the affected AAS will be frozen. All other amendments will be included). Where there are internal inconsistencies in the application / meaning of the term reporting entity the Board will tolerate them. That is, unlike in Option 2, they will not be addressed via paragraph AusCF1.
Subsequent Amendments to AASs – amendments to AASs or new AASs issued subsequent to Phase 1 (but before Phase 2) being implemented (e.g. a post implementation review) (see here for further explanation)				
FPPAE	Applicable to FPPAE.	Applicable to FPPAE.	Applicable to FPPAE.	Applicable to FPPAE.
Other entities	AASB would need to consider the scope of each amendment to determine whether it is appropriate for other entities (i.e. whether the amendments are fundamentally affected by the RCF, but would be likely to introduce recognition and measurement changes even if not consistent with the CF. However, AASB would have option to not introduce these changes).	AASB would need to introduce recognition and measurement changes for all other entities, as will be consistent with the new RCF.	Would not apply as AASs are 'frozen' until Phase 2 is implemented.	Staff expect it is unlikely that a subsequent amendment would be fundamentally affected by Chapter 3 of the RCF, however the Board would need to consider the scope of each amendment to determine whether it is appropriate for other entities to apply for completeness.

8 RCF Chapter 3 *Financial Statements and the Reporting Entity*

9 Paragraph AusCF1 results in other entities reading the term reporting entity in an AAS as meaning "an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries."

TABLE 1 – SUMMARY OF EACH OPTION CONSIDERED

	Option 1 – illustrative example here.	Option 2 – illustrative example here.	Option 3 – illustrative example here.	Option 4 – illustrative example here.
Pros	✓ Results in only one set of AAS. ✓ Application of the different conceptual frameworks is clearly defined and less likely to cause confusion (i.e. can label on website etc. so it is clear that CF is used by other entities). ✓ Results in only one set of AAS. ✓ Addresses the definition of the term reporting entity. ✓ Will be straightforward to 'unwind' when implementing Phase 2. ✓ CF is frozen, no need to consider implications of the reporting entity definition on other sections of the RCF. ✓ Option to not introduce recognition and measurement changes in the RCF for other entities. ✓ Easy to remove AusCF paragraphs in Phase 2. ✓ Don't need to consider whether other aspects of the RCF will need to be amended to accommodate retaining SAC 1 and the Australian definition of reporting entity.	✓ Results in only one set of AAS. ✓ Addresses the definition of the term reporting entity. ✓ Must implement subsequent changes to recognition and measurement to be consistent with the RCF. Only Chapter 3 and related amendments to other sections are frozen.	✓ Application of the different conceptual frameworks is clearly defined.	✓ It is expected to be unlikely that Chapter 3 of the RCF will fundamentally affect subsequent amendments or newly issued AAS, therefore all requirements are expected to apply to all entities.
Cons	× Does not resolve the inconsistency in what the term reporting entity means. × The application of subsequent amendments and AAS issued for the first time subsequent to the RCF being issued may be restricted to FPPAE only. × Subsequent recognition and measurement changes made by AASB will not be consistent with the CF	× Does not resolve the inconsistency in what the term reporting entity means. × Requires detailed assessment of other aspects of RCF to see what amendments are to accommodate retaining SAC 1 and the Australian definition of reporting entity. × Likely to cause confusion as to what is applicable to FPPAE and other entities (i.e. chapter 3 and SAC 1 will both be available in one document so it will be more difficult for prepares to navigate). × Other entities will need to apply the new recognition and measurement requirements in the RCF in circumstances where an accounting standard does not address an issue (i.e. the RCF is not frozen). × Those stakeholders wanting to retain the option for special purpose financial statements are likely to prefer Option 2.	× Results in two sets of AAS. × Once Phase 2 is implemented the Board would need to consider transitional requirements for other entities so that they can 'catch' up with FPPAE. × Management of Compilations will be complex. × The inconsistency between the RCF definition of reporting entity and AAS definition of reporting entity is not addressed.	× May result in two sets of AAS. × Once Phase 2 is implemented the Board would need to consider transitional requirements for other entities so that they can 'catch' up with FPPAE. × Compilations will be complex. × The inconsistency between the RCF definition of reporting entity and AAS definition of reporting entity is not addressed.

Subsequent amendments

17. Subsequent to the adoption of the RCF in Australia, it is likely that the IASB will issue subsequent amendments to AAS. The subsequent amendments in question are those that would be made subsequent to the adoption of the RCF and may arise out of an IASB project such as FICE[10] or where the IASB opts to amend the definition of a liability in IAS 37 to reflect the revised definition in the RCF[11].

18. By way of example, should the IASB decide to make a subsequent amendment to IAS 37 to amend the definition of a liability in IAS 37, the following illustrates how the subsequent amendment would be applied under each of the four options:

	Option 1	Option 2	Option 3	Option 4
FPPAE	✓ Amendment would be applied	✓ Amendment would be applied	✓ Amendment would be applied	✓ Amendment would be applied
Other entities	? The AASB would need to determine whether this amendment should be applied by other entities.	✓ As the amended definition of a liability is not affected by Chapter 3 of the RCF this amendment would be applied by other entities.	× Under this option no subsequent amendments are made to AAS for other entities.	× As the amended definition of a liability is fundamentally affected by the RCF, this subsequent amendment could not be applied by other entities.
How	If the AASB determines the amendment applies only to FPPAE, the AASB would need to include an AusCF paragraph to preserve the existing AASB 137 requirements for other entities and the AASB would need to amend the existing text of AASB 137 to reflect the IASB's amendments. If the AASB determines the amendment applies to all entities then the changes are made, however they would need to be amended so as to not refer to the RCF and there would then be an inconsistency between AASB 137 and the CF.	The amendment would be made to update the existing requirements of AASB 137.	The amendment would be made to update the existing requirements of AASB 137 in the set of AAS applied by FPPAE.	As the amendment applies only to FPPAE, the AASB would need to include an AusCF paragraph to preserve the existing AASB 137 requirements for other entities and the AASB would need to amend the existing text of AASB 137 to reflect the IASB's amendments.

10 The term FICE is used to refer to the IASB Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity*.

11 There are a number of instances where the IASB elected to 'freeze' the definition of an asset or liability and not update it for the revised definition in the RCF. One such example is the definition of a liability in IAS 37.

19. As subsequent amendments may not always be applicable to all entities, the administration of AAS will become complex. For example, the application of subsequent amendments to each of the options will not always be consistent and will depend on the nature of the amendment. Staff will be required to keep a register of all amendments made subsequent to the issue of the RCF and may be required to continue to update AAS with AusCF paragraphs where the application of a subsequent amendment does not apply to all entities.

20. Other matters that will also need to be consider in due course include how, depending on the option adopted by the Board, changes made to facilitate two conceptual frameworks will be 'unwound', how all the amendments that weren't compiled into Option 3 will be addressed, how all amendments will be made and how AASs issued subsequent to the implementation of Phase 1 will become applicable to other entities (e.g. amending application paragraphs, transitional relief etc.) will be addressed.

Question 1 to the Board:

(a) Does the Board agree with Staff's recommendation that Option 1 is confirmed as the most viable approach to implement Phase 1 and that the amending standard (AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework* – AASB 2018-X) should be drafted on this basis? If no, which option does the Board recommend?

(b) Does the Board agree with the recommended use of the AusCF paragraphs to facilitate identification of issues need to be resolved in Phase 2? If no, what does the Board recommend?

(c) Does the Board agree that the proposed wording in AusCF1 (as outlined in paragraph 13) is sufficiently detailed to capture not-for-profit entities and for-profit entities that are not applying Tier 1 so as not to unintentionally alter the existing application requirements of those AAS? If no, how should the proposed wording be amended?

TIMELINE TO IMPLEMENT PHASE 1

21. To maintain IFRS compliance, the RCF and consequential amendments (i.e. AASB 2018-X) will need to have an effective date of 1 January 2020 for FPPAE. Therefore the following timeline is required to meet this deadline, subject to feedback on Phase 1:

Task	Date
Present this Agenda Item 9.1 at the September Board meeting for the Board to determine which of the four options they wish to adopt.	4 September
Staff to prepare Fatal Flaw Draft of the Amending Standard based on the Board's decision about which of the four options to adopt.	6 September –18 September
Fatal Flaw Draft of the Amending Standard to be circulated to the Board out of session with a two-week review period.	19 September
Staff to draft Basis for Conclusions for the Amending Standard.	20 September – 4 October
Staff to update Fatal Flaw Draft of the Amending Standard for comments received from Board.	4 October – 11 October
Fatal Flaw Draft of the Amending Standard issued with a two-week comment period.	12 October
Staff conduct targeted outreach on Fatal Flaw Draft of the Amending Standard and draft pre-ballot draft of RCF.	12 October – 26 October
Staff to collate Fatal Flaw Draft submissions and prepare Staff paper and pre-Ballot Draft of the Amending Standard for out-of session review.	29 October – 14 November
Pre-Ballot draft of the Amending Standard sent to the Board for review with a one-week review period.	15 November – 22 November
Staff to consider Board feedback and prepare Ballot Draft.	23 November – 3 December
Issue Ballot Draft to the Board with one-week voting period.	4 December
Staff receive Board votes.	11 December
Issue RCF (without NFP amendments) and AASB 2018-X.	14 December

22. In addition to the above tasks, Staff will liaise with our Communications Manager to ensure all necessary external communications occur (e.g. Action Alerts and communications when final pronouncements are issued).

Question 2 to the Board:

(a) Does the Board agree that the Fatal Flaw Draft of the Amending Standard should be issued for public comment?

(b) Does the Board have any comments on the proposed timeline to implement Phase 1?

APPENDIX A

ILLUSTRATION OF EACH OPTION CONSIDERED

23. Illustrative examples of the amendments that would be required to AASB 3 *Business Combinations* under each of the four options summarised in Table 1 above have been provided below to illustrate the differing practical applications of the amendments under each option.

24. In addition to the consequential amendments illustrated below, consequential amendments will also be required to various other AAS including AASB 2 *Share-Based Payment*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 14 *Regulatory Deferral Accounts*, AASB 101 *Presentation of Financial Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 134 *Interim Financial Reporting*, AASB 137, AASB 138 *Intangible Assets*, Interpretation 12 *Service Concession Arrangements*, Interpretation 19 *Extinguishing Financial Liabilities with Equity*, Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*, Interpretation 22 *Foreign Currency Transactions and Advance Consideration* and Interpretation 132 *Intangible Assets–Website Costs*. Amendments will also be required to the RCF, the CF, SAC 1, AASB 1048 and AASB 1057.

Option 1

25. Under Option 1, there will be two conceptual frameworks (RCF and CF) and one set of AAS. The RCF will be applied by FPPAE. The CF will be applied by other entities. Where the IASB makes a further subsequent amendment, AAS will also be updated. The application of these amendments will be determined by the nature of the change. Where the subsequent amendment cannot be applied by other entities, the existing requirements are effectively frozen.

26. To incorporate the IASB's consequential amendments:
    - Paragraph AusCF1 will be added to all AAS.
    - The existing requirements in AAS will be amended as per the IASB's consequential amendments.
    - AusCF paragraphs and footnotes are added.

27. The below extract from AASB 3 *Business Combinations* has been provided to illustrate the practical application of these amendments. The text has been included in italics for emphasis.

Accounting Standard AASB 3
Business Combinations

Paragraphs AusCF1 and AusCF11 are added. In paragraph 11, the footnote to 'Framework for the Preparation and Presentation of Financial Statements' is amended. Paragraph 11 has not been otherwise amended but is included here for ease of reference. New text is underlined and deleted text is struck through.

Objective

1 *The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:*

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire;

(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

<u>*AusCF1*</u> <u>*The requirements of AusCF paragraphs and footnotes included in this Standard apply only to not-for-profit entities and for-profit entities other than those applying Tier 1: Australian Accounting Standards in accordance with AASB 1053 Application of Tiers of Australian Accounting Standards (Tier 1). For entities applying AusCF paragraphs, the term 'reporting*</u>

entity' is defined in AASB 1053, and SAC 1 Definition of the Reporting Entity also applies. For-profit entities claiming IFRS compliance shall not apply AusCF paragraphs[12].

Aus1.1 Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, paragraphs Aus63.1–Aus63.9 shall be applied.

…

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements (as identified in AASB 1048 Interpretation of Standards)[1] *at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.*

1 ~~In December 2013 the AASB amended the Framework for the Preparation and Presentation of Financial Statements.~~ For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the Framework for the Preparation and Presentation of Financial Statements adopted by the AASB in 2013 rather than the Conceptual Framework for Financial Reporting issued in 2018.[13]

AusCF11 Notwithstanding paragraph 11, in respect of each not-for-profit entity and for-profit other than one applying Tier 1, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements[AusCF1] *at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.*[14]

AusCF1 In December 2013 the AASB amended the *Framework for the Preparation and Presentation of Financial Statements*.

Click here to return to Table 1 – Summary of each Option Considered.

Option 2

28. Under Option 2, there will be one conceptual framework (RCF) and one set of AAS. The RCF will be applied in full by FPPAE. The RCF excluding Chapter 3, will be applied by other entities[15]. Other entities will apply AASB 1053 (and SAC 1) to all instances of the term reporting entity. AAS will be updated for all entities as IASB updates, other than RCF Chapter 3, which is replaced by SAC 1.

29. To incorporate the IASB's consequential amendments:
    - Paragraph AusCF1 will be added to all AAS which include the term reporting entity.
    - The existing requirements in AAS will be amended as per the IASB's consequential amendments.

30. The below extract from AASB 3 *Business Combinations* has been provided to illustrate the practical application of these amendments. The text has been included in italics for emphasis.

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[12] Staff considered whether it was more appropriate to include the statement that 'For-profit entities claiming IFRS compliance may not use AusCF paragraphs' in one AAS such as AASB 1053 or AASB 1057, rather than duplicating it in each AAS, however felt it was prudent to include the statement in each AAS for the avoidance of doubt.

[13] An amendment to the CF will be required to state that the CF can only be applied by FPPAE if they are specifically required / directed to apply the CF to a specific situation.

[14] The use of "Notwithstanding paragraph …." is consistent with the wording used in Aus paragraphs in other AAS to 'exempt' NFP entities from the requirements of the paragraph immediately preceding the Aus paragraph. While it may be possible to achieve the same outcome (that is exempt other entities from the paragraph immediately preceding an AusCF paragraph) with AusCF1 Staff propose retaining the 'Notwithstanding paragraph …' requirements for consistency with Aus paragraphs

[15] To restrict the application of Chapter 3 of the RCF, the RCF would require an Australian specific amendment which would outline that Chapter 3 of the RCF can only be applied by FPPAE. An amendment would also be required to SAC 1 to outline that it can only be applied by other entities.

Accounting Standard AASB 3
Business Combinations

Paragraph AusCF1 is added. In paragraph 11, the footnote to 'Framework for the Preparation and Presentation of Financial Statements' is amended. Paragraph 11 has not been otherwise amended but is included here for ease of reference. New text is underlined and deleted text is struck through.

Objective

1 *The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:*

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

AusCF1 The requirements of AusCF paragraphs and footnotes included in this Standard apply only to not-for-profit entities and for-profit entities other than those applying Tier 1: Australian Accounting Standards in accordance with AASB 1053 Application of Tiers of Australian Accounting Standards (Tier 1). . For entities applying AusCF paragraphs, the term 'reporting entity' is defined in AASB 1053, and SAC 1 Definition of the Reporting Entity also applies. For-profit entities claiming IFRS compliance shall not apply AusCF paragraphs[16].

Aus1.1 Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, paragraphs Aus63.1–Aus63.9 shall be applied.

…

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements (as identified in AASB 1048 Interpretation of Standards)[1] *at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.*

1 ~~*In December 2013 the AASB amended the Framework for the Preparation and Presentation of Financial Statements.*~~ *For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the Framework for the Preparation and Presentation of Financial Statements adopted by the AASB in 2013 rather than the Conceptual Framework for Financial Reporting issued in 2018.*

Click here to return to Table 1 – Summary of each Option Considered.

16 Initially under Option 2, no AusCF paragraphs are required, however it is suggested that AusCF1 be included on initial implementation of Option 2 to ensure that the 'framework' for amendments subsequent to the implementation of the RCF is established.

Option 3

31. Under Option 3, there will be two conceptual frameworks (RCF and CF) and two sets of AAS. The RCF and one set of AAS amended for the IASB's consequential amendments will be applied by FPPAE. The CF and one set of AAS reflecting the requirements of AAS on issue at the date the RCF is issued will be applied by other entities (i.e. effectively freezing the CF).

32. To incorporate the IASB's consequential amendments:
    — The existing requirements in AAS will be amended as per the IASB's consequential amendments. The application of these amended standards will be restricted to FPPAE and this will create a second set of AAS. The application of this will be managed in the same manner as a FP and NFP version of an AAS is managed.

33. The below extract from AASB 3 *Business Combinations* has been provided to illustrate the practical *application of these amendments.*

Accounting Standard AASB 3
Business Combinations

In paragraph 11, the footnote to 'Framework for the Preparation and Presentation of Financial Statements' is amended. Paragraph 11 has not been otherwise amended but is included here for ease of reference. New text is underlined and deleted text is struck through.

Objective

1 The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:
(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and
(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Aus1.1 Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, paragraphs Aus63.1–Aus63.9 shall be applied.

…

Recognition conditions

11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements (as identified in AASB 1048 Interpretation of Standards)[1] at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.

1 ~~In December 2013 the AASB amended the Framework for the Preparation and Presentation of Financial Statements.~~ <u>For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the Framework for the Preparation and Presentation of Financial Statements adopted by the AASB in 2013 rather than the Conceptual Framework for Financial Reporting issued in 2018.</u>

Click here to return to Table 1 – Summary of each Option Considered.

Option 4

34. Under Option 4, there will be one conceptual framework (RCF) and there may be two sets of AAS. The RCF will be applied in full by FPPAE. The RCF excluding Chapter 3, will be applied by other entities[17]. Whether the AAS are updated is dependent on the nature of the change. Where the subsequent amendment cannot be applied by other entities, the existing requirements are effectively frozen.

35. To incorporate the IASB's consequential amendments:
    — The existing requirements in AAS will be amended as per the IASB's consequential amendments[18].

36. The below extract from AASB 3 *Business Combinations* has been provided to illustrate the practical application of these amendments.

Accounting Standard AASB 3
Business Combinations[19]

In paragraph 11, the footnote to 'Framework for the Preparation and Presentation of Financial Statements' is amended. Paragraph 11 has not been otherwise amended but is included here for ease of reference. New text is underlined and deleted text is struck through.

Objective

1 *The objective of this Standard is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. To accomplish that, this Standard establishes principles and requirements for how the acquirer:*

(a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;

(b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and

(c) Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

Aus1.1 *Where assets and liabilities are transferred to a local government from another local government at no cost, or for nominal consideration, pursuant to legislation, ministerial directive or other externally imposed requirement, paragraphs Aus63.1–Aus63.9 shall be applied.*

…

Recognition conditions

11 *To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements (as identified in AASB 1048 Interpretation of Standards)[1] at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Australian Accounting Standards.*

1 *~~In December 2013 the AASB amended the Framework for the Preparation and Presentation of Financial Statements.~~ <u>For this Standard, acquirers are required to apply the definitions of an asset and a liability and supporting guidance in the Framework for the Preparation and Presentation of Financial Statements adopted by the AASB in 2013 rather than the Conceptual Framework for Financial Reporting issued in 2018.</u>*

Click here to return to Table 1 – Summary of each Option Considered.

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17 To restrict the application of Chapter 3 of the RCF, the RCF would require an Australian specific amendment which would outline that Chapter 3 of the RCF can only be applied by FPPAE. An amendment would also be required to SAC 1 to outline that it can only be applied by other entities.

18 Staff expect that the IASB's initial consequential amendments will be applicable to all entities, however it is possible that a mix of 'frozen' AASs and updated AASs may occur. At the date the RCF is issued an assessment will be made regarding whether the IASB's consequential amendments are fundamentally affected by Chapter 3 of the RCF. Where they are fundamentally affected by Chapter 3, two versions of the affected AAS will exist –one version for FPPAE which incorporates the IASB's consequential amendments and one version for other entities which does not incorporate the IASB's consequential amendments.

19 As the consequential amendments to AASB 3 are not fundamentally affected by Chapter 3 of the RCF they have been incorporated.