Compiled AASB Standard **AASB 1054**

Australian Additional Disclosures

This compiled Standard applies to annual periods beginning on or after 1 July 2021 but before 1 January 2023 that end on or after 30 June 2022. Earlier application is permitted for annual periods beginning on or after 1 January 2014 but before 1 January 2023 that end before 30 June 2022. It incorporates relevant amendments made up to and including 23 June 2022.

Prepared on 15 September 2022 by the staff of the Australian Accounting Standards Board.

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Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 1054 *Australian Additional Disclosures* (as amended) is set out in paragraphs 1 – 17 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 1054 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with IFRS Standards

AASB 1054 *Australian Additional Disclosures* includes disclosure requirements and definitions which are additional to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

Compliance with AASB 1054 is not needed for IFRS compliance, with the exception of paragraph 17.

Accounting Standard AASB 1054

The Australian Accounting Standards Board made Accounting Standard AASB 1054 *Australian Additional Disclosures* under section 334 of the *Corporations Act 2001* on 11 May 2011.

This compiled version of AASB 1054 applies to annual periods beginning on or after 1 July 2021 but before 1 January 2023 that end on or after 30 June 2022. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 23 June 2022 (see Compilation Details).

Accounting Standard AASB 1054
Australian Additional Disclosures

Objective

1 The objective of this Standard is to set out Australian-specific disclosure requirements that are in addition to disclosure requirements in International Financial Reporting Standards.

Application

2 The following table identifies the disclosure requirements that, in accordance with this Standard, apply to each type of entity to which this Standard applies:

Type of entity to which the paragraph is applicable	Subject of paragraphs	Paragraph numbers
Entities preparing general purpose financial statements		
For-profit entities and not-for-profit entities, whether in the private sector or the public sector	Compliance with Australian Accounting Standards	7
	Reporting framework	8
	General purpose or special purpose financial statements	9
	Audit fees	10, 11
	Imputation credits	12-15
	Operating cash flow reconciliation	16
	IFRS Standard not yet issued in Australia	17
Entities preparing special purpose financial statements		
For-profit private sector entities required only by their constituting document or another document (created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards	Reporting framework	8
	General purpose or special purpose financial statements	9
	Information about special purpose financial statements	9C, 9D
Not-for-profit private sector entities required to comply with this Standard	Compliance with Australian Accounting Standards	7
	Reporting framework	8
	General purpose or special purpose financial statements	9

Type of entity to which the paragraph is applicable	Subject of paragraphs	Paragraph numbers
	Information about special purpose financial statements	9A, 9B
	Audit fees	10, 11
	Imputation credits	12-15
	Operating cash flow reconciliation	16
	IFRS Standard not yet issued in Australia	17

3 **This Standard applies to *annual reporting periods* beginning on or after 1 July 2011.**
[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

4 **This Standard, or individual disclosure requirements, may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011, provided that AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, or its relevant individual amendments, is also adopted early for the same period. When an entity applies this Standard, or individual disclosure requirements, to such an annual reporting period, it shall disclose that fact.**

5 [Deleted by the AASB]

5A–5C [Deleted by the AASB]

Definitions

6 The following terms are used in this Standard with the meanings specified.

Annual reporting period means the financial year or similar period to which annual financial statements relate.

Special purpose financial statements are financial statements other than general purpose financial statements.

Compliance with Australian Accounting Standards

7 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.

Reporting Framework

8 An entity shall disclose in the notes:

(a) the statutory basis or other reporting framework, if any, under which the financial statements are prepared; and

(b) whether, for the purposes of preparing the financial statements, it is a for-profit or not-for-profit entity.

General Purpose or Special Purpose Financial Statements

9 An entity shall disclose in the notes whether the financial statements are general purpose financial statements or *special purpose financial statements.*

Information about special purpose financial statements

9A A not-for-profit private sector entity that prepares special purpose financial statements shall:

(a) disclose the basis on which the decision to prepare special purpose financial statements was made;

(b) where the entity has interests in other entities – disclose either:

(i) whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact, and the reasons why; or

(ii) that the entity has not determined whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, provided it is not required by legislation to make such an assessment for the purpose of assessing its financial reporting requirements and has not made such an assessment;

(c) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), disclose an indication of how it does not comply; or if such an assessment has not been made, disclose that fact; and

(d) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) or that such an assessment has not been made.

9B *Implementation guidance and illustrative examples for not-for-profit private sector entities* accompanies this Standard. It illustrates the application of the requirements in paragraph 9A and their relationship to the requirements in AASB 101 *Presentation of Financial Statements* for the disclosure of an entity's significant accounting policies.

9C The special purpose financial statements of a for-profit private sector entity that is required only by its constituting document or another document (created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards shall:

(a) disclose the basis on which the decision to prepare special purpose financial statements was made;

(b) disclose the following about the material accounting policies applied in the special purpose financial statements, if not already required by another Australian Accounting Standard:

(i) the measurement basis (or bases) applied in preparing the special purpose financial statements; and

(ii) the other accounting policies applied that are relevant to an understanding of the special purpose financial statements;

(c) when a change in a material accounting policy has an effect on the current period or any prior period, disclose the following, if not already required by another Australian Accounting Standard:

(i) the nature of the change in accounting policy;

(ii) the reasons why applying the new accounting policy provides reliable and more relevant information;

(iii) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

(A) for the current period;

(B) for each prior period presented; and

(C) in the aggregate for periods before those presented; and

(iv) an explanation if it is impracticable to determine the amounts to be disclosed under paragraph (iii).

Financial statements of subsequent periods need not repeat these disclosures;

(d) where the entity has interests in other entities – disclose whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall also disclose the reasons why that is the case;

(e) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), disclose an indication of how it does not comply; and

(f) disclose whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128).

9D *Implementation guidance and illustrative examples for certain for-profit private sector entities* accompanies this Standard. It illustrates the application of the requirements in paragraph 9C.

Audit Fees

10 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:

(a) the audit or review of the financial statements; and

(b) all other services performed during the reporting period.

11 For paragraph 10(b) above, an entity shall describe the nature of other services.

Imputation Credits

12 The term 'imputation credits' is used in paragraphs 13-15 to also mean 'franking credits'. The disclosures required by paragraphs 13 and 15 shall be made separately in respect of any New Zealand imputation credits and any Australian imputation credits.

13 An entity shall disclose the amount of imputation credits available for use in subsequent reporting periods.

14 For the purposes of determining the amount required to be disclosed in accordance with paragraph 13, entities may have:

(a) imputation credits that will arise from the payment of the amount of the provision for income tax;

(b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

15 Where there are different classes of investors with different entitlements to imputation credits, disclosures shall be made about the nature of those entitlements for each class where this is relevant to an understanding of them.

Reconciliation of Net Operating Cash Flow to Profit (Loss)

16 When an entity uses the direct method to present its statement of cash flows, the financial statements shall provide a reconciliation of the net cash flow from operating activities to profit (loss).

IFRS Standard Not Yet Issued in Australia

17 When an IFRS Standard has been issued by the International Accounting Standards Board but the equivalent Australian Accounting Standard has yet to be issued by the AASB, an entity intending to comply with IFRS Standards shall disclose the information specified in paragraphs 30 and 31 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in relation to that IFRS Standard.

Appendix A
Australian simplified disclosures for Tier 2 entities

This appendix is an integral part of the Standard.

AusA1 **Paragraphs 7–16 do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.***

Implementation guidance and illustrative examples for not-for-profit private sector entities

The following implementation guidance and illustrative examples accompany, but are not part of, AASB 1054 Australian Additional Disclosures. *They illustrate aspects of AASB 1054 but are not intended to provide interpretative guidance.*

IG1 The AASB has prepared this guidance and examples to explain and illustrate the application of the requirements in paragraph 9A of this Standard and their relationship to the requirements in AASB 101 *Presentation of Financial Statements* for the disclosure of a not-for-profit private sector entity's significant accounting policies. These requirements apply to entities applying this Standard, including those required by legislation to comply. An entity preparing special purpose financial statements that is not specifically required to comply with AASB 1054 may elect not to comply with these requirements, however, is encouraged to do so.

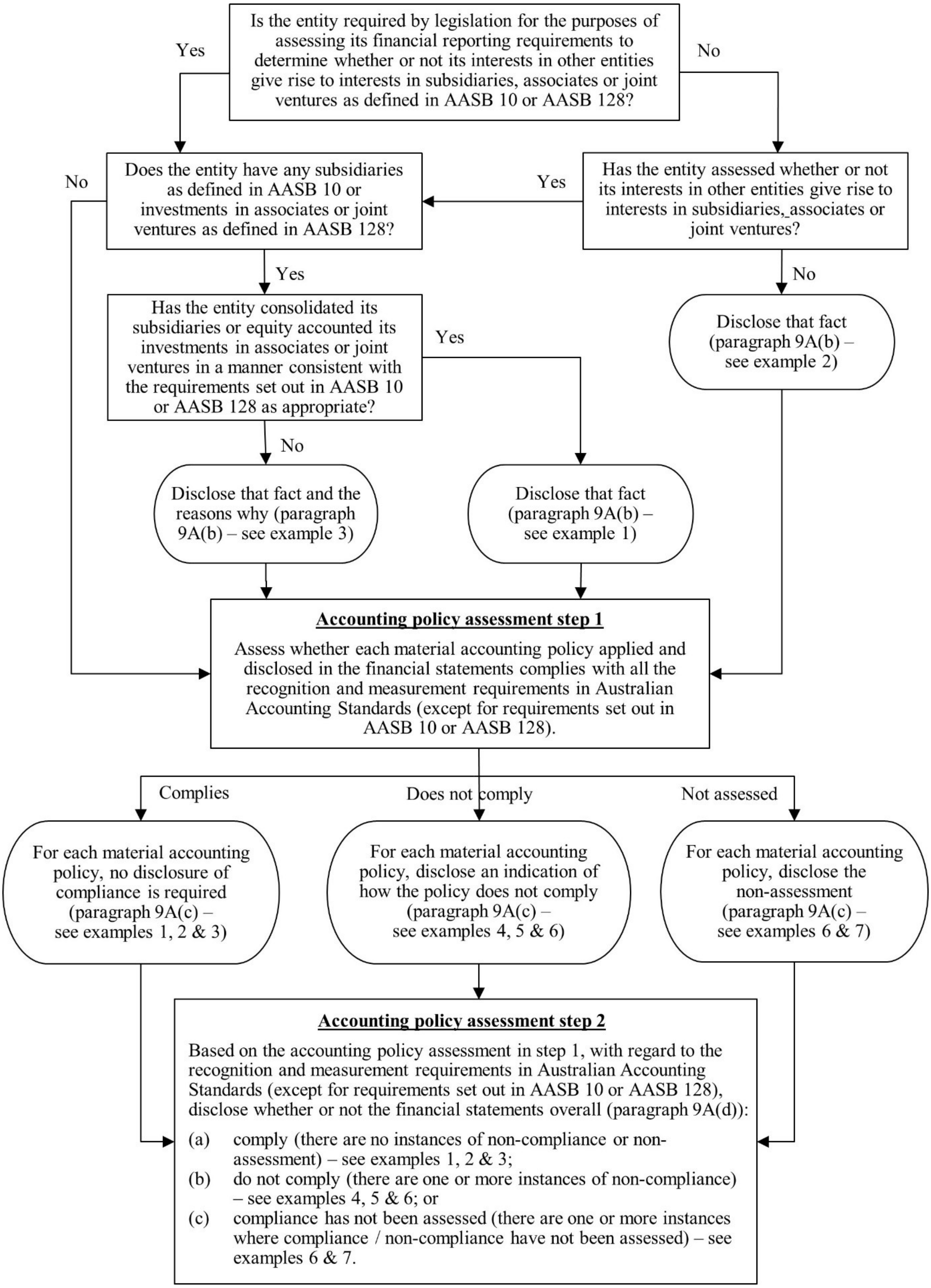
IG2 The table below has been provided for ease of reference to illustrate the types of entities that would be generally within the scope of the requirements in paragraph 9A of this Standard, but some entities may have different specific requirements.

#	Entity	In scope/out of scope
1	**For-profit private and for-profit public sector entities preparing special purpose financial statements**	Not in scope
2	**Not-for-profit private sector entities**	
	Charities registered with the Australian Charities and Not-for-profits Commission (ACNC) - that have annual revenue of $250,000 or more (ie medium and large charities), preparing special purpose financial statements and required to comply with the ACNC reporting requirements for such financial statements	In scope, must comply with AASB 1054
	- that have annual revenue of less than $250,000 (ie small charities)	Not in scope
	- that have annual revenue of $250,000 or more, preparing special purpose financial statements and not required to comply with the ACNC reporting requirements for such financial statements	Not in scope
	Not-for-profit entities not registered with ACNC	
	- lodging special purpose financial statements with the Australian Securities and Investments Commission (ASIC) under the *Corporations Act 2001* (eg companies limited by guarantee)	In scope, must comply with AASB 1054
	- required by Federal or State/Territory legislation to prepare financial statements in accordance with Australian Accounting Standards or accounting standards (eg incorporated associations, co-operatives and charitable fundraising organisations), that are preparing special purpose financial statements and not specifically required to comply with AASB 1054	Not in scope
3	**Other not-for-profit entities, including not-for-profit public sector entities, entities not specified above and entities not required to comply with AASB 1054 by legislation or otherwise**	Not in scope

IG3 The following flowchart summarises some of the key decisions in determining how to apply the disclosure requirements in paragraph 9A of this Standard in relation to special purpose financial statements.

IG4 In disclosing the information required by paragraph 9A of this Standard, entities are not expected to provide quantitative information, or reconciliations, where accounting policies do not comply with all the recognition and measurement requirements in Australian Accounting Standards.

Chart 1 – Not-for-profit private sector entities preparing special purpose financial statements



Disclosure of accounting policies

IG5 Not-for-profit private sector entities required to apply AASB 1054 in their special purpose financial statements (including those lodged with ASIC or the ACNC), whether consolidated or unconsolidated, are also required to apply AASB 101 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, including:

(a) paragraph 15 of AASB 101, which requires the fair presentation of financial statements;

(b) paragraphs 10-12 of AASB 108, which address the selection of accounting policies in the absence of an Australian Accounting Standard that specifically applies to a transaction, other event or condition; and

(c) paragraph 117 of AASB 101, which requires disclosure of significant accounting policies comprising the measurement basis (or bases) and the other accounting policies used that are relevant to an understanding of the financial statements.

As a result, sufficient information to enable users of special purpose financial statements to obtain an understanding of the accounting policies adopted is required to be disclosed. This includes where an entity has selected and applied accounting policies that differ from the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*).

Accounting policy assessment step 1: Assessing compliance with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) at the accounting policy level

IG6 Paragraph 9A(c) of this Standard requires an entity, for each material accounting policy applied and disclosed in the financial statements to first assess, based on already known information, whether that policy complies with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), does not comply, or compliance has not been assessed. An entity is not expected to perform a detailed assessment of recognition and measurement differences if that has not already been performed.

IG7 Using those assessments:

(a) an entity discloses for those policies not complying with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) or not assessed for compliance, an indication of how it does not comply or that such an assessment has not been made; or

(b) if the material accounting policies applied and disclosed in the financial statements comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) no additional disclosures are required.

IG8 Where an entity's accounting policies do not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), the presentation of the disclosure providing an indication of that non-compliance may differ depending on the extent of non-compliance. Entities may choose to provide disclosures for non-compliance and non-assessed policies in one place or placed with each accounting policy disclosed in the financial statements as appropriate. For example:

(a) an entity may choose to disclose which Australian Accounting Standards they have not complied with and provide details of the non-compliance in one place for example within the basis of preparation note, where the instance of non-compliance are not extensive (see Example 4 below); or alternatively

(b) where the instances of non-compliance are extensive, details of the non-compliance may be provided within the relevant accounting policy note (see Example 5 below).

Accounting policy assessment step 2: Disclosing whether or not the financial statements comply overall with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) or that compliance has not been assessed

IG9 Based on the assessment in paragraph 9A(c), paragraph 9A(d) then requires an entity to disclose whether or not overall the material accounting policies applied and disclosed in the financial statements comply (that is there are no instances of non-compliance or non-assessment) (see Examples 1, 2 and 3 below) or do not comply (there are one or more instances of non-compliance) with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) (see Examples 4, 5 and 6 below), or that an assessment has not been made (there are one or more instances of compliance / non-compliance not having been assessed) (see Examples 6 and 7 below).

IG10 Based on the AASB's research, some of the most frequent examples of non-compliance with recognition and measurement requirements in Australian Accounting Standards include:

(a) in accounting for income, recognition of grant income for a specified time period, or which has no conditions that need to be met, is deferred until the related expenses are incurred, or all grant income is deferred, without assessing whether a performance obligation exists, which does not comply with AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-Profit Entities*;

(b) in accounting for property, plant and equipment, assets were not depreciated based on their useful lives, which does not comply with AASB 116 *Property, Plant and Equipment*;

(c) in accounting for impairments, the recoverable amount for impairment testing was calculated on an undiscounted basis, which does not comply with AASB 136 *Impairment of Assets*; and

(d) in accounting for employee benefits, the long-term provision for long service leave is not recognised, or not discounted, which does not comply with AASB 119 *Employee Benefits*.

Application of the consolidation and equity accounting requirements

IG11 In relation to paragraph 9A(b) of this Standard, information about the accounting for subsidiaries and investments in associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements. Some entities are required to determine their financial reporting requirements based on the application of recognition and measurement requirements in Australian Accounting Standards, including consolidation, for example a proprietary company subject to section 45A of the *Corporations Act 2001* is required to determine whether it is a small or large proprietary company on a consolidated basis (ie the parent and the entities it controls (subsidiaries)) in accordance with the accounting standards even if the standards do not otherwise apply to some or all of the companies concerned. Other entities, typically lodging financial reports with the ACNC, make their assessments based on individual entity circumstances only. In instances where legislation does not require assessment on a consolidated basis, and an entity has not made an assessment of whether its interests in other entities are subsidiaries, associates or joint ventures, an entity shall make a statement that they have not been assessed (see Example 2 below).

IG12 Exemptions from consolidation of subsidiaries are provided in AASB 10, paragraphs 4(a) and Aus4.1 (as modified by paragraph Aus4.2), including when the entity is a wholly-owned subsidiary and its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards. Directors preparing special purpose financial statements might have other reasons for non-consolidation of some or all of an entity's subsidiaries, and paragraph 9A(b) requires these reasons to be disclosed (see Example 3 below).

IG13 The following illustrative examples are provided:

<table>
<tr><th colspan="2">Scenario/Example</th><th>1</th><th>2</th><th>3</th><th>4</th><th>5</th><th>6</th><th>7</th></tr>
<tr><td rowspan="2">Reporting Framework</td><td>ACNC</td><td>✓</td><td>✓</td><td>✓</td><td></td><td>✓</td><td></td><td>✓</td></tr>
<tr><td>Corporations Act 2001</td><td></td><td></td><td></td><td>✓</td><td></td><td>✓</td><td></td></tr>
<tr><td rowspan="2">Subsidiaries</td><td>Yes</td><td>✓</td><td rowspan="2">Not assessed</td><td>✓</td><td></td><td></td><td></td><td></td></tr>
<tr><td>No</td><td></td><td></td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
</table>

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Scenario/Example		1	2	3	4	5	6	7
Consolidated	**Yes**	✓	n/a		n/a	n/a	n/a	n/a
	No							
	Partially			✓				
Associates / Joint Ventures	**Yes**	✓	Not assessed	✓				
	No				✓	✓	✓	✓
Equity accounted	**Yes**	✓			n/a	n/a	n/a	n/a
	No		✓					
	Partially			✓				
Material accounting policies comply with all recognition and measurement requirements (except for AASB 10 or AASB 128)	**Yes**	✓	✓	✓				
	No				✓	✓	✓	
	Not assessed						✓	✓
Financial statements overall comply with all recognition and measurement requirements (except for AASB 10 or AASB128)	**Yes**	✓	✓	✓				
	No				✓	✓	✓	
	Not assessed							✓

IG14 The following examples illustrate how an entity might apply the disclosure requirements in paragraph 9A of this Standard within the context of the requirements in AASB 101 and AASB 108 referred to in paragraph IG5 above to the special purpose financial statements they prepare, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying disclosure requirements of this Standard.

#	Example	Illustrative disclosure
1	*Compliance with all recognition and measurement requirements in Australian Accounting Standards including AASB 10 and AASB 128* Charity A Inc, a not-for-profit parent, prepares consolidated special purpose financial statements that: • consolidate all its subsidiaries in a manner consistent with the requirements set out in AASB 10; • equity account all its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128; and • apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards.	Charity A Inc is a not-for-profit entity. The Members of the Governing / Management Committee are of the opinion that the Association is not a reporting entity as users may obtain the financial information they require upon request. These special purpose financial statements have therefore been prepared in order to meet the requirements of the [*Australian Charities and Not-for-profits Commission Act 2012* / insert further details of the not-for-profit reporting framework under which the financial statements are prepared]. Charity A Inc has consolidated all its subsidiaries consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* and equity accounted for its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128 *Investments in Associates and Joint Ventures*. These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.

#	Example	Illustrative disclosure
2	*Compliance with all recognition and measurement requirements in Australian Accounting Standards except for AASB 10 and AASB 128 (interests in other entities not assessed)* Charity B Inc, a not-for-profit entity, prepares special purpose financial statements that: • do not consolidate or equity account any entities as Charity B Inc did not determine whether its interests in other entities give rise to interests in subsidiaries or investments in associates or joint ventures; and • apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. The legislative framework in which Charity B Inc operates does not require it to identify subsidiaries, associates or joint ventures to determine its financial reporting requirements.	Charity B Inc is a not-for-profit entity. In the opinion of the Management Committee, Charity B Inc is not a reporting entity as its users may request the financial information they need. These special purpose financial statements have been prepared for distribution to members and for the purposes of fulfilling the reporting requirements under the [*Australian Charities and Not-for-profits Commission Act 2012* / insert further details of the not-for-profit reporting framework under which the financial statements are prepared]. Charity B Inc has not assessed whether it has relationships with other entities which, for financial reporting purposes, might be considered subsidiaries, associates or joint ventures as it is not required by the [*Australian Charities and Not-for-profits Commission Act 2012*] to do so. These special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*).
3	*Compliance with all recognition and measurement requirements in Australian Accounting Standards except for AASB 10 and AASB 128 (some subsidiaries not consolidated and some associates and joint ventures not equity accounted)* MNO Ltd, a parent that is a charity, prepares partially consolidated special purpose financial statements that: • consolidate some but not all of its subsidiaries (and are therefore inconsistent with the requirements set out in AASB 10); • do not equity account all its investments in associates and investments in joint ventures in a manner consistent with the requirements set out in AASB 128; and • apply accounting policies to those partially consolidated financial statements that comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).	MNO Ltd, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Directors' reporting requirements under the [*Australian Charities and Not-for-profits Commission Act 2012 /* insert further details of the not-for-profit reporting framework under which the financial statements are prepared]. These financial statements do not consolidate all of MNO Ltd's subsidiaries or equity account all its investments in associates and investments in joint ventures as the Directors [did not perform a detailed assessment of all of MNO Ltd's relationships with other entities, and instead elected to only consolidate those entities MNO Ltd has a 100% ownership interest in / insert an explanation of why some subsidiaries, associates and joint ventures are not consolidated / equity accounted.] MNO Ltd's partially consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*).
4	*Known non-compliance with all recognition and measurement requirements in Australian Accounting Standards that is* ***not*** *extensive* XYZ Ltd, a not-for-profit entity that is not a charity, determined that it does not have any subsidiaries, associates or joint ventures (and therefore requirements set	XYZ Ltd, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Directors' reporting requirements under the *Corporations Act 2001*. These special purpose financial statements do not comply with all

#	Example	Illustrative disclosure
	out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are not extensive.	the recognition and measurement requirements in Australian Accounting Standards. The recognition and measurement requirements that have not been complied with are those specified in AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* as, in accounting for income, recognition of all grant income has been deferred [[until the related expenses are incurred without assessing whether there are enforceable performance obligations to transfer a good or service to a third party which are sufficiently specific to know when the performance obligation has been satisfied] / [where the grant is for multi-years without assessing whether there is a performance obligation or the grantor retains control of the remainder of the grant at the end of each year] / insert further details including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with].
5	*Known non-compliance with all recognition and measurement requirements in Australian Accounting Standards that* ***is*** *extensive* Charity D Inc, a not-for-profit entity, does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. Although the differences have not been quantified, they are extensive and an indication of the differences are presented with the appropriate note disclosing the accounting policy.	Charity D Inc, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Management Committee, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Management Committee's reporting requirements under the [*Australian Charities and Not-for-profits Commission Act 2012* / insert further details of the not-for-profit reporting framework under which the financial statements are prepared]. These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards. [The material accounting policies adopted in the special purpose financial statements are set out in notes X-Y and indicate how the recognition and measurement requirements in Australian Accounting Standards have not been complied with. … Note X: Revenue … All grant income has been deferred upon receipt and not recognised as revenue until the related expenses are incurred, without assessing whether enforceable performance obligations exist. This does not comply with AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-Profit Entities.* ... Note Y: Employee Benefits … Long-term provision recognised for long service leave has been measured on the undiscounted basis which does not comply with AASB 119 *Employee Benefits.* …]
6	*At least one material accounting policy not assessed for compliance with recognition and measurement requirements in Australian Accounting Standards (combined with known non-compliance with recognition and measurement requirements in Australian Accounting Standards)* MLK Ltd, a not-for-profit entity, does	MLK Ltd is a not-for-profit entity. In the opinion of the Directors Charity E Ltd is not a reporting entity as its users may request the financial information they need. These special purpose financial statements have been prepared for distribution to members and for the purposes of fulfilling the requirements of the *Corporations Act 2001*. These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards.

#	Example	Illustrative disclosure
	not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply some material accounting policies that do not comply with the recognition and measurement requirements in Australian Accounting Standards and some material accounting policies that have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards.	The material accounting policies adopted in the special purpose financial statements include: - [deferring all grant income upon receipt and not recognising as revenue until the related expenses are incurred, without assessing whether enforceable performance obligations exist, which does not comply with AASB 15 *Revenue from Contracts with Customers* or AASB 1058 *Income of Not-for-Profit Entities*; - insert further details including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with]. The material accounting policies disclosed in note X that have not been assessed for compliance with the recognition and measurement requirements of Australian Accounting Standards include: - Long-service leave; and - Impairment of assets.
7	*At least one material accounting policy not assessed for compliance with recognition and measurement requirements in Australian Accounting Standards (all other material accounting policies comply with recognition and measurement requirements in Australian Accounting Standards)* Charity F Inc, a not-for-profit entity, does not have any subsidiaries, associates or joint ventures (and therefore requirements set out in AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply some material accounting policies that have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards. All other material accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards.	Charity F Inc, a not-for-profit entity, has prepared special purpose financial statements as, in the opinion of the Management Committee, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Management Committee's reporting requirements under [the *Australian Charities and Not-for-profits Commission Act 2012* / insert details of the not-for-profit reporting framework under which the financial statements are prepared]. Charity F Inc has not assessed whether these special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards. [The material accounting policies disclosed in note X that have not been assessed for compliance with Australian Accounting Standards include: - Recognition of income; and - Long-service leave.] OR [The material accounting policies adopted in the special purpose financial statements are set out in notes X-Y and indicate how they have not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards. … Note X: Revenue All grant income has been deferred upon receipt and not recognised as revenue until the related expenses are incurred, and has not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards. ... Note Y: Employee Benefits … Long-term provision recognised for long service leave has been measured to reflect the directors best estimate of the amounts payable for those employees expected to achieve seven years of service at the reporting date, and has not been assessed for compliance with the recognition and measurement requirements in Australian Accounting Standards.]

Implementation guidance and illustrative examples for certain for-profit private sector entities

The following implementation guidance and illustrative examples accompany, but are not part of, AASB 1054 Australian Additional Disclosures. *They illustrate aspects of AASB 1054 but are not intended to provide interpretative guidance.*

IG15 The AASB has prepared this guidance and examples to explain and illustrate the application of the requirements in paragraph 9C of this Standard.

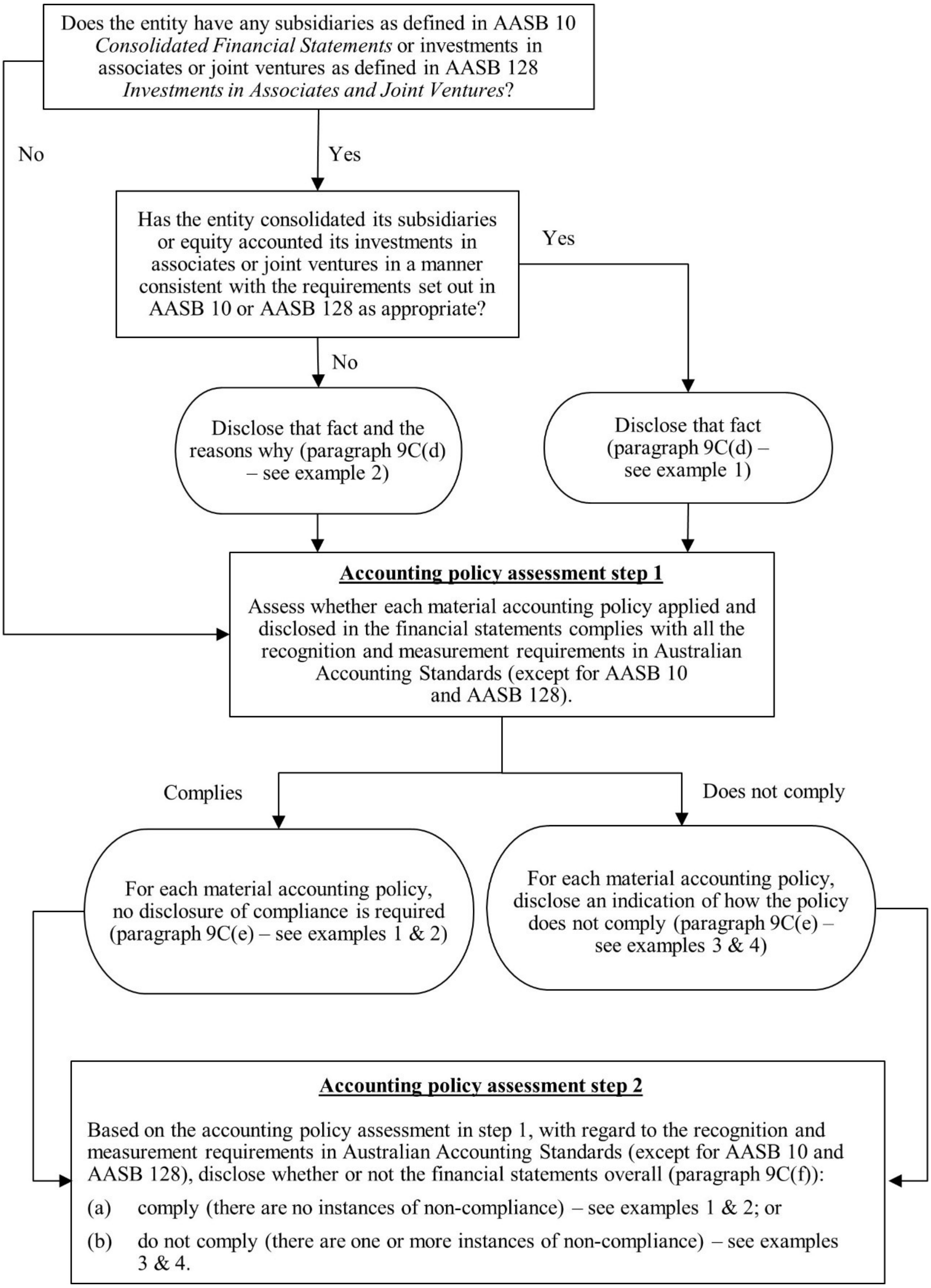
IG16 The table below has been provided for ease of reference to illustrate the types of entities that would generally be within or outside the scope of the requirements in paragraph 9C of this Standard.

#	Type of entity	In scope/out of scope
1	**For-profit private sector entities preparing special purpose financial statements**	
	For-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards – provided that the relevant document was created before 1 July 2021 and not amended on or after that date	In scope
	For-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards – but the relevant document was created or amended on or after 1 July 2021	Not in scope – compliance with the Standards requires general purpose financial statements
	For-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with accounting standards or generally accepted accounting principles or practices	Not in scope
	For-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards	Not in scope – compliance with the Standards requires general purpose financial statements
	For-profit private sector entities that are required by legislation to prepare financial statements, where there is no legislative reference requiring compliance with Australian Accounting Standards or accounting standards	Not in scope
2	**For-profit and not-for-profit public sector entities preparing special purpose financial statements**	Not in scope
3	**Not-for-profit private sector entities preparing special purpose financial statements**	Not in scope – see paragraph 9A for similar requirements

IG17 The following flowchart summarises some of the key decisions in determining how to apply the disclosure requirements in paragraphs 9C(d)-(f) of this Standard in relation to special purpose financial statements.

IG18 In disclosing the information required by paragraphs 9C(d)-(f) of this Standard, entities are not expected to provide quantitative information, or reconciliations, where accounting policies do not comply with all the recognition and measurement requirements in Australian Accounting Standards.

Chart 2 – For-profit private sector entities preparing special purpose financial statements (paragraphs 9C(d)-(f))



Disclose the basis on which the decision to prepare special purpose financial statements was made

IG19 Paragraph 9C(a) requires an entity to disclose the reasons why the preparation of special purpose financial statements was considered appropriate. It is not sufficient for the entity to merely disclose that it is 'not a reporting entity'; the entity must articulate the reasons why it concluded general purpose financial statements were not required. For example, the reason could be that in the opinion of the directors of the entity all financial statement users are in a position to require the entity to prepare reports tailored to their particular information needs.

Disclosure of accounting policies

IG20 For-profit private sector entities within the scope of this Standard that are preparing special purpose financial statements are required to include sufficient information to enable users of those special purpose financial statements to obtain an understanding of the material accounting policies applied in the preparation of the special purpose financial statements, including changes in those policies.

IG21 The disclosure of this information may be required by another Australian Accounting Standard, such as AASB 101 *Presentation of Financial Statements* or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Where this is the case, the entity also complies with the requirements of the other Standard.

Accounting policy assessment step 1: Compliance at the individual accounting policy level

IG22 Paragraph 9C(e) of this Standard requires an entity, for each material accounting policy applied and disclosed in the financial statements, to first assess whether that policy complies or does not comply with the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128).

IG23 Using those assessments:

(a) an entity discloses for those policies not complying with the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), an indication of how it does not comply; or

(b) if the material accounting policies applied and disclosed in the financial statements comply with the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), no additional disclosures are required.

IG24 Where an entity's accounting policies do not comply with the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128), the presentation of the disclosure providing an indication of that non-compliance may differ depending on the extent of non-compliance. Entities may choose to provide disclosures for non-compliant policies in one place or placed with each accounting policy disclosed in the financial statements, as appropriate. For example:

(a) an entity may choose to disclose which Australian Accounting Standards are not complied with and provide details of the non-compliance in one place – for example, within the basis of preparation note – where the instances of non-compliance are not extensive (see Example 3); or

(b) where the instances of non-compliance are extensive, details of the non-compliance may be provided within the relevant accounting policy note (see Example 4).

Accounting policy assessment step 2: Overall compliance

IG25 Based on the assessment required by paragraph 9C(e), paragraph 9C(f) then requires an entity to disclose whether or not overall the material accounting policies applied and disclosed in the financial statements comply (that is, there are no instances of non-compliance) (see Examples 1 and 2) or do not comply (there are one or more instances of non-compliance) (see Examples 3 and 4) with all the recognition and measurement requirements in Australian Accounting Standards (except for AASB 10 and AASB 128).

IG26 Based on the AASB's research, some of the most frequent examples of non-compliance with recognition and measurement requirements in Australian Accounting Standards include:

(a) in accounting for income taxes, deferred tax was not recognised, which does not comply with AASB 112 *Income Taxes*;

(b) in accounting for property, plant and equipment, assets were not depreciated based on their useful lives, which does not comply with AASB 116 *Property, Plant and Equipment*;

(c) in accounting for impairments, the recoverable amount of assets for impairment testing was calculated on an undiscounted basis, which does not comply with AASB 136 *Impairment of Assets*;

(d) in accounting for leases, certain leases that would previously have been considered operating leases in accordance with AASB 117 *Leases*[1] have not been recognised in the statement of financial position, which does not comply with AASB 16 *Leases*; and

(e) in accounting for revenue, revenue was recognised based on the transfer of risks and rewards or the percentage of completion method in accordance with AASB 118 *Revenue*,[2] which does not comply with AASB 15 *Revenue from Contracts with Customers*.

Application of the consolidation and equity accounting requirements

IG27 In relation to paragraph 9C(d) of this Standard, information about the accounting for subsidiaries and investments in associates and joint ventures is fundamental for a user's understanding of the scope of the financial statements.

IG28 Exemptions from consolidation of subsidiaries are provided in AASB 10, paragraphs 4(a)-Aus4.2, including when the entity is a wholly-owned subsidiary, its debt or equity instruments are not traded in or to be issued in a public market and its ultimate parent produces consolidated financial statements that are available for public use and comply with accounting standards. Those charged with governance preparing special purpose financial statements might have other reasons for non-consolidation of some or all of an entity's subsidiaries, and paragraph 9C(d) requires these reasons to be disclosed (see Example 2).

Illustrative examples

IG29 The following illustrative examples are provided:

<table>
<tr><th colspan="2">Scenario/Example</th><th>1</th><th>2</th><th>3</th><th>4</th></tr>
<tr><td rowspan="2">Reporting Framework</td><td>Trust deed</td><td></td><td></td><td>✓</td><td>✓</td></tr>
<tr><td>Other document</td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td rowspan="2">Subsidiaries</td><td>Yes</td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td>No</td><td></td><td></td><td>✓</td><td>✓</td></tr>
<tr><td rowspan="2">Consolidated</td><td>Yes</td><td>✓</td><td></td><td rowspan="2">n/a</td><td rowspan="2">n/a</td></tr>
<tr><td>No</td><td></td><td>✓</td></tr>
<tr><td rowspan="2">Associates / Joint Ventures</td><td>Yes</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>No</td><td></td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td rowspan="2">Equity accounted</td><td>Yes</td><td>✓</td><td rowspan="2">n/a</td><td rowspan="2">n/a</td><td rowspan="2">n/a</td></tr>
<tr><td>No</td><td></td></tr>
<tr><td rowspan="2">Material accounting policies comply with all recognition and measurement requirements (excluding AASB 10 and AASB 128)</td><td>Yes</td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td>No</td><td></td><td></td><td>✓</td><td>✓</td></tr>
<tr><td rowspan="2">Financial statements overall comply with all recognition and measurement requirements (excluding AASB 10 and AASB 128)</td><td>Yes</td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td>No</td><td></td><td></td><td>✓</td><td>✓</td></tr>
</table>

IG30 There are additional illustrative examples in paragraphs IG13 and IG14 of this Standard that may be useful, notwithstanding that they have been prepared for not-for-profit private sector entities.

1 AASB 117 was superseded by AASB 16 for periods beginning on or after 1 January 2019.
2 AASB 118 was superseded by AASB 15 for for-profit entities for periods beginning on or after 1 January 2018.

IG31 The following examples illustrate how an entity might apply some of the disclosure requirements in paragraph 9C of this Standard, on the basis of the limited facts presented. Although some aspects of the examples might be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern need to be evaluated when applying the Standard.

#	Example	Illustrative disclosure
1	*Compliance with all recognition and measurement requirements in Australian Accounting Standards, including AASB 10 and AASB 128* CMA Pty Ltd, a small for-profit parent company, has prepared special purpose financial statements to satisfy requirements of the major supplier of its raw materials. The special purpose financial statements: • consolidate all its subsidiaries in a manner consistent with the requirements set out in AASB 10; • equity account all its investments in associates and joint ventures in a manner consistent with the requirements set out in AASB 128; and • apply accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards.	CMA Pty Ltd is a small for-profit entity that prepares special purpose financial statements under its raw material supply agreement with Company X. These special purpose financial statements have therefore been prepared in accordance with the reporting framework agreed with Company X, which specifies limited note disclosures to accompany the financial statements. The Directors note that Company X may obtain further financial information upon request. CMA Pty Ltd has consolidated all its subsidiaries consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* and equity accounted for its investments in associates and joint ventures consistent with the requirements set out in AASB 128 *Investments in Associates and Joint Ventures*. These consolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards.
2	*Compliance with all recognition and measurement requirements in Australian Accounting Standards, excluding AASB 10 and AASB 128* KC Pty Ltd, a small for-profit parent company, prepares separate special purpose financial statements in order to meet the requirements of its financing agreement. The separate special purpose financial statements apply material accounting policies that comply with all the recognition and measurement requirements in Australian Accounting Standards. The separate financial statements do not consolidate KC Pty Ltd's subsidiaries.	These special purpose financial statements have been prepared to satisfy the company's reporting requirements under its financing agreement with Bank X, which requires the financial statements to comply with Australian Accounting Standards. In the opinion of the Directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. KC Pty Ltd is a for-profit entity. Consolidated financial statements have not been prepared for KC Pty Ltd and its subsidiaries as the Directors have decided not to comply with AASB 10 *Consolidated Financial Statements* – the Directors would provide consolidated information to financial statement users upon request. KC Pty Ltd's special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards for separate financial statements.
3	*Known non-compliance with recognition and measurement requirements in Australian Accounting Standards that* ***is not*** *extensive* ABC Trading Trust, a for-profit entity, determined that it does not have any subsidiaries, associates or joint ventures (and therefore AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The differences are not extensive.	ABC Trading Trust, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the Trustees, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Trustee's reporting requirements under the Trust Deed, which requires the financial statements to comply with Australian Accounting Standards. These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards. The recognition and measurement requirements that have not been complied with are those specified in AASB 116 *Property, Plant and Equipment*. In accounting for property, plant and equipment, ABC Trading Trust has [calculated

#	Example	Illustrative disclosure
		depreciation on the basis of the useful lives determined by the Australian Taxation Office for income tax purposes / insert further details, including an indication of how material recognition and measurement requirements in Australian Accounting Standards have not been complied with].
4	*Known non-compliance with the recognition and measurement requirements in Australian Accounting Standards that* ***is*** *extensive* HIJ Public Trading Trust, a for-profit entity, determined that it does not have any subsidiaries, associates or joint ventures (and therefore AASB 10 and AASB 128 are not applicable) and prepares special purpose financial statements that apply material accounting policies that do not comply with all the recognition and measurement requirements in Australian Accounting Standards. Although the differences have not been quantified, they are extensive, and an indication of the differences are presented with the appropriate note disclosing the accounting policy.	HIJ Public Trading Trust, a for-profit entity, has prepared special purpose financial statements as, in the opinion of the Trustees, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the Trustee's reporting requirements under the Trust Deed, which requires the financial statements to comply with Australian Accounting Standards. These special purpose financial statements do not comply with all the recognition and measurement requirements in Australian Accounting Standards. [The material accounting policies adopted in the special purpose financial statements are set out in notes Q-Z and indicate how the recognition and measurement requirements in Australian Accounting Standards have not been complied with. … Note X: Impairment … Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined on an undiscounted basis as the higher of an asset's fair value less costs of disposal and value in use. This does not comply with AASB 136 *Impairment of Assets.* Note Y: Income Tax … The income tax expense or credit for the period is based on the tax payable on the current period's taxable income based on the applicable income tax rate. This amount is not adjusted for changes in deferred tax assets and liabilities as HIJ Public Trading Trust does not recognise deferred tax balances. This does not comply with AASB 112 *Income Taxes.* …]

Compilation details
Accounting Standard AASB 1054 *Australian Additional Disclosures* (as amended)

This compiled Standard applies to annual periods beginning on or after 1 July 2021 but before 1 January 2023 that end on or after 30 June 2022. It takes into account amendments up to and including 23 June 2022 and was prepared on 15 September 2022 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1054 (May 2011) as amended by other Accounting Standards, which are listed in the table below.

Table of Standards

Standard	Date made	FRL identifier	Commence-ment date	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
AASB 1054	11 May 2011	F2011L00817	30 Jun 2011	*(beginning)* 1 Jul 2011	see (a) below
AASB 2011-2	11 May 2011	F2011L00824	30 Jun 2013	*(beginning)* 1 Jul 2013	see (b) below
AASB 2015-3	28 Jan 2015	F2015L00134	30 Jun 2015	*(beginning)* 1 Jul 2015	see (c) below
AASB 2019-1	21 May 2019	F2019L00966	31 Dec 2019	*(beginning)* 1 Jan 2020	see (d) below
AASB 2019-4	21 Nov 2019	F2019L01584	29 Jun 2020	*(ending)* 30 Jun 2020	see (e) below
AASB 2019-5	21 Nov 2019	F2019L01585	31 Dec 2019	*(beginning)* 1 Jan 2020	see (d) below
AASB 1060	6 Mar 2020	F2020L00288	30 Jun 2021	*(beginning)* 1 Jul 2021	see (f) below
AASB 2021-6	8 Dec 2021	F2021L01793	31 Dec 2022	*(beginning)* 1 Jan 2023	not compiled*
AASB 2022-4	23 Jun 2022	F2022L01041	29 Jun 2022	*(ending)* 30 Jun 2022	see (g) below

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual periods beginning on or 1 July 2021 but before 1 January 2023 that end on or after 30 June 2022.

(a) Entities may elect to apply this Standard, or individual disclosure requirements, to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2011, provided that AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*, or the relevant individual amendments, is also applied to such periods.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* are also applied to such periods.

(c) Entities may elect to apply this Standard to annual periods beginning on or after 1 January 2014 but before 1 July 2015.

(d) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

(e) Entities may elect to apply this Standard to annual periods ending before 30 June 2020.

(f) Entities may elect to apply this Standard to annual periods beginning before 1 July 2021.

(g) Entities may elect to apply this Standard to annual periods ending before 30 June 2022.

Table of amendments to Standard

Paragraph affected	How affected	By … [paragraph/page]
2	deleted added	AASB 2019-1 [page 28] AASB 2022-4 [5]
5	deleted	AASB 2015-3 [13, 14]
5A-5C (and heading)	added deleted	AASB 2011-2 [8] AASB 1060 [page 68]
5A	amended	AASB 2019-5 [5]
RDR7.1	added deleted	AASB 2011-2 [8] AASB 1060 [page 68]
9A-9B (and heading)	added	AASB 2019-4 [6]
9C-9D	added	AASB 2022-4 [5]
17 (and heading)	added	AASB 2019-5 [6]
Appendix A	added	AASB 1060 [page 68]

Table of amendments to guidance

Paragraph affected	How affected	By … [paragraph/page]
IG1-IG14 (and headings)	added	AASB 2019-4 [7]
IG15-IG31 (and headings)	added	AASB 2022-4 [6]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1054.

Background

BC1 This Basis for Conclusions summarises the considerations of the Australian Accounting Standards Board and the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants (NZICA) in reaching the conclusions in AASB 1054. It also provides a context for the Boards' decisions about harmonising the disclosure requirements. It focuses on the issues that the Boards consider to be of greatest significance. Individual Board members gave greater weight to some factors than to others.

Location of Additional Disclosures

BC2 The Boards discussed the merits of locating the additional domestic disclosure requirements in a separate disclosure standard compared with locating them within topic-based standards, which is the current practice. Some members supported a separate disclosure standard largely on the basis that it would facilitate the topic-based standards being identical to International Financial Reporting Standards (IFRSs). Other members expressed a preference for locating additional disclosures within topic-based standards for ease of use. On balance, with the benefit of constituent responses to AASB ED 200B / FRSB ED 122 Proposed Separate Disclosure Standards, the Boards decided to locate the additional disclosures in separate disclosure standards on the basis that they view bringing the wording of Australian and New Zealand Standards closer to IFRSs as one of the greatest benefits of the Trans-Tasman Convergence project.

Definitions

BC3 The definition of 'annual reporting period' has been retained on the basis that it is used in application paragraphs of AASB Standards, consistent with terminology in the Australian Corporations Act 2001.

BC4 The definition of 'special purpose financial statements' has been retained on the basis that it is used in a disclosure requirement related to the AASB's differential reporting framework.

Audit Fees

BC5 The AASB and the FRSB have relocated and amended the audit fee disclosure requirements contained in AASB 101 Presentation of Financial Statements and NZ IAS 1 Presentation of Financial Statements to their respective separate disclosure Standards and harmonised the disclosure requirements across both jurisdictions.

BC6 The AASB and the FRSB consider that the disclosure of audit fees is a matter of accountability and, given that the accountability environment is similar in both jurisdictions, they should have the same audit fee disclosure requirements. The Boards also took the opportunity to simplify the disclosure requirements on the basis that in recent times both preparers and users have indicated that disclosures in financial statements have become overly complex.

BC7 The AASB and FRSB noted the usefulness of the notion of 'related practice' in audit fee disclosures in AASB 101 and decided to incorporate a similar notion that is common to both jurisdictions in the harmonised disclosures. Accordingly, the Boards decided to include the notion of 'network firm' from APES 110 Code of Ethics for Professional Accountants issued by Accounting and Professional Ethical Standards Board (APESB) (February 2008) and Code of Ethics: Independence in Assurance Engagements issued by the NZICA (September 2008). The Boards also decided not to define or provide explanatory material for 'network firm' on the basis that the notion is generally understood and preparers and auditors could refer to the relevant APESB and NZICA pronouncements.

BC8 The AASB and FRSB note that disclosures are made in the context of the scope of the entity reporting. Accordingly, in the case of a group, disclosures made in accordance with paragraph 10 would include fees paid by the parent and its subsidiaries for each of the parent and its subsidiaries.

Imputation Credits

BC9 The AASB and the FRSB have relocated the imputation credit disclosure requirements contained in AASB 101 and NZ IAS 12 Income Taxes to their respective separate disclosure Standards and to harmonise the disclosure requirements across both jurisdictions.

BC10 The AASB and the FRSB noted that Australia and New Zealand are among a limited number of jurisdictions that have an imputation tax regime and acknowledge the decision usefulness of information about imputation credits to users of financial information. Accordingly, the AASB and the FRSB decided that these disclosure requirements should be retained.

BC11 Given that both jurisdictions have disclosure requirements about imputation credits, and that the imputation regimes in each jurisdiction are highly similar, the Boards have harmonised the wording across both jurisdictions. The Boards also took the opportunity to simplify the disclosure requirements on the basis that in recent times both preparers and users have indicated that disclosures in financial statements have become overly complex.

Reconciliation of Net Operating Cash Flow to Profit (Loss)

BC12 The AASB and the FRSB have relocated the requirement to disclose a reconciliation of net operating cash flow to profit or loss when an entity uses the direct method to present its statement of cash flows [that were contained in AASB 107 Statement of Cash Flows and NZ IAS 7 Statement of Cash Flows] to their respective separate disclosure standards and to harmonise the disclosure requirements across both jurisdictions.

BC13 The Boards, in forming the view to retain the requirement for a reconciliation of net operating cash flow to profit or loss, acknowledged the weight of comments received on AASB ED 200B / FRSB ED 122 from constituents who opposed the proposal to remove this requirement.

BC14 The Boards noted that the IASB has recently considered requiring a reconciliation of net operating cash flow to profit or loss in the context of its Financial Statement Presentation project.

Basis for Conclusions on AASB 2019-4

This Basis for Conclusions accompanies, but is not part of, AASB 1054. The Basis for Conclusions was originally published with AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Background

Reasons for issuing this Standard

BC2 Australia is the only jurisdiction with a 'reporting entity' concept that effectively permits entities to self-assess what type of financial reporting they do when they are required by legislation or otherwise (such as by a constitutional document) to prepare financial statements in accordance with Australian Accounting Standards (issued by the Australian Accounting Standards Board). Therefore, unlike other jurisdictions, in Australia two similar entities might prepare very different sets of financial statements, one preparing general purpose financial statements using a robust and consistent framework, and the other preparing special purpose financial statements with self-selected requirements. The Board notes that the self-selection is subject to some constraints, imposed by paragraphs 7 and 10 to 12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC3 Appendix A of AASB 1053 *Application of Tiers of Australian Accounting Standards* defines what a reporting entity is,[1] and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also sets out the reporting entity concept. Paragraph 41 of SAC 1 states that "Reporting entities shall prepare general purpose financial reports."[2] In relation to a group, SAC 1 states in paragraph 17 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".

BC4 An entity that assesses itself to be a non-reporting entity can therefore prepare special purpose financial statements, which are not necessarily consistent, comparable, transparent or enforceable. In particular, special purpose financial statements do not always comply with the recognition and measurement requirements[3] in Australian Accounting Standards and nor do they always disclose that fact. The Board is aware of the view of some, that this situation is acceptable because, by inference, users of special purpose financial statements can demand any information they need. However, the Board has received feedback that in practice that is often not the case. The Board determined that users should be provided with adequate information to enable them to confidently assess an entity's level of compliance with the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements or be alerted to areas where this has not been assessed, and is therefore unclear. Such disclosures are expected to better support users in identifying where additional information is required.

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1 "Reporting entity means 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." AASB 1053, Appendix A.

2 A " 'general purpose financial report' means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs". SAC 1, paragraph 6.

3 For those entities that are required to prepare and lodge financial statements with the Australian Securities and Investments Commission (ASIC) by Part 2M.3 of the *Corporations Act 2001*, and who are preparing special purpose financial statements, paragraph 2 of ASIC Regulatory Guide 85 *Reporting requirements for non-reporting entities* 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". For those entities that are required to prepare and lodge financial statements with the Australian Charities and Not-for-profits Commission (ACNC), section 60.10(3) of ACNC Regulations requires financial statements and notes give a 'true and fair view', and the determination is required by the charity as well as the auditors in their audit report.

BC5 In developing this Standard, the Board considered the findings of AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium Sized Australian Charities* and feedback obtained from the not-for-profit private sector regarding the public interest nature of the sector and the needs of financial statement users with regard to the consistency and transparency of special purpose financial statements.

BC6 The research examining the reporting practices of large and medium charities lodging financial statements with the ACNC in 2016 estimates that approximately 36% of those charities declared that they were preparing special purpose financial statements based on data obtained from the 2016 Annual Information Statements lodged with the ACNC. It is estimated that, of those charities preparing and lodging special purpose financial statements, approximately 26% state compliance with recognition and measurement requirements in Australian Accounting Standards. 30% state non-compliance with the recognition and measurements requirements in Australian Accounting Standards. It is not clear for the remaining 44% whether or not they complied with the recognition and measurement requirements in Australian Accounting Standards.[4] Research also indicates that there are issues with the accuracy of charities stating they are preparing general purpose financial statements.[5]

BC7 In addition to it being difficult for the researchers to understand the extent of alignment of an entity's accounting policies to the recognition and measurement requirements in Australian Accounting Standards, the researchers were also unable to ascertain whether or not an entity had fully consolidated its subsidiaries or equity accounted all its investments in associates and joint ventures.

BC8 The Board discussed the results of the research outlined above and also feedback obtained from respondents to user surveys, along with evidence supporting the existence of users of financial statements, including special purpose financial statements.[6] The Board also noted the importance of consistency, comparability, transparency and enforceability in financial reporting to special purpose financial statement users, and that at times users and other stakeholders were unaware that some special purpose financial statements (where the preparation of financial statements in compliance with Australian Accounting Standards is required by legislation or otherwise) did not comply with all the recognition and measurement requirements in Australian Accounting Standards including consolidation. Adoption of the new disclosures in this Standard helps address these issues.

BC9 The Board was also particularly concerned that the quality of disclosures in a significant number of special purpose financial statements is not adequate to enable a user to determine what additional information they might need. As noted in paragraph BC6 above research indicated that, for 44% of medium and large charities lodging special purpose financial statements with the ACNC, it was unclear to the academics conducting the research whether or not the entities in question complied with the recognition and measurement requirements in Australian Accounting Standards. The Board considers this to be unacceptable given the feedback received from users regarding consistency and transparency of special purpose financial statements including comparability of the recognition and measurement requirements (refer paragraph BC5 above).

BC10 In light of the Board's current broader project proposing to remove the ability for certain entities to prepare special purpose financial statements when they are required to comply with Australian Accounting Standards,[7] the Board considered whether it was necessary and timely to require an entity preparing special purpose financial statements to disclose whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards. These new disclosures are an interim measure aimed at addressing these concerns given the project proposing to remove special purpose financial statements will take some time, particularly for the not-for-profit entities.

BC11 In considering whether such disclosure was necessary, the Board also considered whether any existing disclosure requirements in Australian Accounting Standards or other pronouncements required the disclosure of similar information.

BC12 The Board noted that paragraph 117 of AASB 101 *Presentation of Financial Statements,* which applies not only to general purpose financial statements but also directly to the special purpose financial statements of

4 Research Report 11.

5 Appendix 2, Research Report 11.

6 Financial statements lodged with the ACNC are available from the ACNC's website for no cost, therefore it is reasonable to expect that financial statements are being accessed by public users. Research Report 11 noted that of the approximately 16,000 charities lodging financial statements with the ACNC in 2016, approximately one third declared that they were preparing special purpose financial statements.

7 This project proposes to remove ability for certain entities to prepare special purpose financial statements when they are required to comply with Australian Accounting Standards via a phased approach, firstly in relation to for-profit entities and, in due course, in relation to not-for-profit entities.

entities required to prepare financial reports in accordance with the *Corporations Act 2001*,[8] requires an entity to disclose its significant accounting policies. The Board also noted that, where it applies, paragraph 6.1 of Accounting Professional and Ethical Standard APES 205 *Conformity with Accounting Standards* (October 2015) issued by the Accounting Professional and Ethical Standards Board (APESB) also requires that an entity's special purpose financial statements clearly identify "the significant accounting policies adopted in the preparation of the special purpose financial statements".[9] The Board however noted that while these disclosures provide information about an entity's accounting policies, they would not necessarily provide users with sufficient information about an entity's compliance with all the recognition and measurement requirements in Australian Accounting Standards.

BC13 On the basis of the considerations outlined in paragraphs BC2-BC12 above, the Board decided that an amendment to Australian Accounting Standards to require entities to disclose an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards was urgently needed to provide greater transparency to users of publicly lodged special purpose financial statements and to improve the comparability of special purpose financial statements. The Board also acknowledged that disclosure of this information is not sufficient to address the problems of special purpose financial reporting, however it provides a practical interim means of improving the quality of information provided to users of special purpose financial statements.

BC14 The Board noted that, when preparing the required disclosure, entities would need to consider how their existing accounting policies compare with all the recognition and measurement requirements in Australian Accounting Standards. While the Board confirmed that the amendment would not require an entity to change its existing accounting policies, understanding how closely the entity's existing accounting policies are aligned to the recognition and measurement requirements in Australian Accounting Standards would also help entities assess the impact of any future transition from special purpose financial statements to general purpose financial statements.

Issue of Exposure Draft ED 293

BC15 The Board's proposals with respect to the disclosures in special purpose financial statements finalised in this Standard were exposed for public comment in July 2019 as part of Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (ED 293).

BC16 The significant issues considered by the Board in developing ED 293 are addressed in the following section.

Significant issues

Scope

BC17 In deciding who should be required to make the disclosures proposed in ED 293, the Board considered *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework*, and decided the proposals would be consistent with both frameworks and therefore ED 293 proposed that they should apply to for-profit and not-for-profit entities.

BC18 In making this decision, the Board had particular regard to the following factors:

(a) the uncertainty about whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards described in paragraph BC6 above, coupled with the findings of AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019)[10] significantly adversely impacts financial statement users in both the for-profit and not-for-profit sectors;

8 And indirectly through other legislation that imposes the application of AASB 101 in the preparation of special purpose financial statements. For example, the *Australian Charities and Not-for-profits Commission Act 2012*, through section 60.30 of the *Australian Charities and Not- for- profits Commission Regulation 2013*, requires charities lodging special purpose financial statements with the ACNC to comply with AASB 101, despite the fact that the application paragraph of that Standard does not directly encompass them.

9 Paragraph 6.1(c) of APES 205.

10 Research Report 12 examined the financial reporting practices of for-profit entities, including large proprietary companies, small foreign-controlled proprietary companies, for-profit unlisted public companies and other small proprietary companies, lodging financial statements with ASIC. Research Report 12 noted that when performing their initial assessment as to whether or not the accounting policies applied in the special purpose financial statements complied with the recognition and measurement requirements in Australian

(b) financial statement users have noted during AASB outreach to date[11] the lack of, and need to improve, comparability, consistency, transparency and enforceability in special purpose financial statements;

(c) the evidence of diversity in the application of, and compliance with, the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements noted in Research Report 11 (refer to paragraph BC6 above) and Research Report 12;[12]

(d) the significant number of charities preparing special purpose financial statements and the low levels of explicit statements of compliance with the recognition and measurement requirements in Australian Accounting Standards therein (refer paragraph BC6 above); and

(e) the requirements of Australian Auditing Standards as they relate to special purpose financial statements (refer to paragraph BC26 below).

BC19 When deciding which for-profit and not-for-profit entities should be required to make the disclosures proposed in ED 293, the Board considered whether the disclosures should be required by:

(a) all entities preparing special purpose financial statements (including those preparing financial statements voluntarily); or

(b) all entities preparing special purpose financial statements that are required by legislation or otherwise to comply with Australian Accounting Standards; or

(c) only those entities preparing special purpose financial statements that are directly subject to AASB 101 and AASB 1054 *Australian Additional Disclosures*[13], as set out in paragraph 2 of AASB 1054 and paragraph 7 of AASB 1057 *Application of Australian Accounting Standards*, (and, indirectly, any entities required through legislation to comply with AASB 101 and AASB 1054, such as entities lodging special purpose financial statements with the ACNC as they are required by legislation to comply with AASB 101 and AASB 1054 (as noted in footnote 8 to paragraph BC12 above)).

BC20 The Board considered that while there was merit in requiring all entities required by legislation or otherwise to comply with Australian Accounting Standards preparing special purpose financial statements to make the disclosure proposed in ED 293 (ie those entities include paragraph BC19(b)), to do so was not warranted. This is consistent with the current scope of Australian Accounting Standards and the Board's role and expertise, which is to determine the appropriate accounting framework and accounting standards that should apply where legislation, regulation or other authority requires the preparation of financial statements that comply with Australian Accounting Standards.

BC21 The Board did acknowledge that if the disclosures were required only by entities subject to AASB 101 and AASB 1054, there may be a large number of entities preparing special purpose financial statements when required to comply with Australian Accounting Standards that would not be required to make the disclosures (eg entities outside the scope of the *Corporations Act 2001* and entities not required to comply with the ACNC's reporting requirements applying to special purpose financial statements). The Board however made the observation that many of these entities are expected to fall within the scope of APES 205, as the intention of APES 205 is to set requirements for members[14] who are involved in the preparation, presentation, audit, review or compilation of financial statements for entities that are outside the scope of the *Corporations Act 2001*. Therefore, to possibly mitigate (albeit not eliminate) concerns about entities outside the scope of AASB 101 and AASB 1054 not being required to make the disclosures,

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Accounting Standards, it was initially unclear to the researchers whether or not 34% of the entities in question complied with the recognition and measurement requirements in Australian Accounting Standards.

11 Such outreach included responses received on ITC 39, user surveys, participation of stakeholders at ITC 39 roundtable events and targeted outreach with not-for-profit private sector stakeholders.

12 Research Report 12 estimated that of those for-profit non-disclosing entities preparing and lodging special purpose financial statements 66% explicitly stated that they followed the recognition and measurement requirements in Australian Accounting Standards, 10% were assessed to have complied with the recognition and measurement requirements in Australian Accounting Standards based on a qualitative review of the accounting policies, despite the absence of an explicit statement to that effect, 10% did not comply with the recognition and measurement requirements in Australian Accounting Standards (of which only 0.5% clearly stated so), and the extent of compliance (or otherwise) with the recognition and measurement requirements in Australian Accounting Standards of the remaining 14% was unclear.

13 And AASB 107 *Statement of Cash Flows*, AASB 108 and AASB 1048 *Interpretation of Standards*, although they were not considered appropriate candidates to give effect to the amendments proposed in ED 293, as noted in paragraph BC23 below.

14 APES 205 defines a member 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 is 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. Therefore, although its reach is limited, it is broader than that of AASB 1054.

the matter was raised with staff of the APESB as to whether the APESB might consider, following its own due process, making any consequential amendments to APES 205 consistent with the amendments to the affected Australian Accounting Standard proposed in ED 293. Subsequent to the issue of ED 293, the Board noted that the matter was considered by the APESB, and that the APESB were not proposing amendments to APES 205 (of a nature consistent with those proposed in ED 293) at that time, however they did consider it an important issue to seek stakeholder views on. Accordingly, the Explanatory Memorandum to Exposure Draft 03/19 *Proposed revisions to APESB Pronouncements* included commentary on this matter and sought specific feedback from their stakeholders. After considering this feedback, the APESB decided not to amend APES 205.

BC22 For the reasons outlined in paragraph BC20-BC21 above, the Board decided it was not necessary to broaden the application paragraphs of AASB 101 or AASB 1054, and therefore ED 293 proposed the amendment should apply in the manner described in paragraph BC19(c) above.

BC23 The Board then considered whether the disclosure requirement should be effected through AASB 101 or AASB 1054. They were identified as the only two reasonable candidates as vehicles for housing the requirements because they already have related requirements: AASB 101 includes requirements relating to the disclosure of accounting policies and compliance with Standards, and AASB 1054 includes requirements relating to compliance with Australian Accounting Standards and explicitly refers to special purpose financial statements. The Board's preferred approach was to amend AASB 1054 because the amendment is Australian-specific, specifically relates to special purpose financial statements, and 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".

Disclosures regarding the basis for the decision to prepare special purpose financial statements

BC24 Paragraph 9 of AASB 1054 requires an entity to disclose whether the financial statements are general purpose or special purpose. The Board decided that entities should also be required to disclose the reasons why the preparation of special purpose financial statements was considered appropriate.

BC25 In making this decision, the Board noted that APES 205 contains a requirement for entities to identify "the purpose for which the Special Purpose Financial Statements have been prepared"[15] and therefore entities within the scope of APES 205 should already be including this information in special purpose financial statements, however mandating it in an Australian Accounting Standard would help ensure users are provided with useful information.

BC26 The Board also noted the requirements of Australian Auditing Standards and the existing responsibilities of those charged with governance and auditors with respect to the selection and application of an entity's financial reporting framework. In particular, the Board noted the requirements in ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* which for example require that "the auditor shall obtain an understanding of the steps undertaken by management to determine that the applicable financial reporting framework is acceptable in the circumstances"[16] and also ASA 700 *Forming an Opinion and Reporting on a Financial Report* which for example requires that "the auditor shall evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework".[17]

Disclosures regarding compliance with all the recognition and measurement requirements in Australian Accounting Standards

BC27 When deciding what information about compliance with all the recognition and measurement requirements in Australian Accounting Standards should be disclosed, the Board considered the following alternatives in developing ED 293:

Option	Information to be disclosed
Option 1	Contextual information about the entity, being where the entity has subsidiaries, investments in associates or investments in joint ventures, and whether or not they have been consolidated or equity accounted in a manner consistent with the requirements set out in Australian Accounting Standards.

15 Paragraph 6.1(c) of APES 205.
16 Paragraph 8 of ASA 800.
17 Paragraph 15 of ASA 700.

Option	Information to be disclosed
	If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures in a manner consistent with the requirements set out in Australian Accounting Standards, the entity shall disclose that fact and the reasons why. If the entity is a not-for-profit entity, and it has not determined whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, the entity shall instead disclose that fact.
Option 2	An explicit statement as to whether or not the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards and, if not, an indication of where they do not comply.
Option 3	Merely a binary statement regarding compliance or non-compliance with all the recognition and measurement requirements in Australian Accounting Standards, for example either that "the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards" or "the entity has not complied with all the recognition and measurement requirements in Australian Accounting Standards".
Option 4	Merely a statement of compliance with all the recognition and measurement requirements in Australian Accounting Standards that is, no statement would be required if an entity did not comply with all the recognition and measurement requirements in Australian Accounting Standards.

BC28 The Board decided that Options 1 and 2 together were most appropriate, as they best inform financial statement users about the special purpose financial statements and best address the issues identified in paragraphs BC2-BC12 above.

BC29 In considering the application of Australian Accounting Standards to special purpose financial statements, the Board noted that section 45A of the *Corporations Act 2001* requires the assessment of thresholds for small and large proprietary companies to be determined on a consolidated basis (ie the parent and the entities it controls (subsidiaries)) in accordance with the accounting standards even if the standards do not otherwise apply to some or all of the companies concerned. For the purposes of this section, the question of whether a proprietary company controls another entity is to be decided in accordance with the requirements of Australian Accounting Standards (ie AASB 10 *Consolidated Financial Statements*) even if the standards do not otherwise apply to the company.

BC30 The Board considered whether an explicit statement that an entity does not have subsidiaries, or investments in associates or joint ventures was required. The Board noted that entities preparing either Tier 1 or Tier 2 general purpose financial statements[18] are not required to make these statements and accordingly an explicit statement in these circumstances should not be required.

BC31 The Board decided that in situations where an entity's financial statements do not consolidate some or all of its subsidiaries, information about the consolidated financial statements of the entity's parent is likely to be useful to enable financial statement users to at least be able to know if and where they can access some consolidated information, even if it is incorporated into a wider group. While this requirement arguably improves transparency in financial reporting, the Board decided not to mandatorily require disclosure of this information as such information is currently not required to be provided by entities preparing Tier 2 general purpose financial statements. The Board acknowledged that entities preparing Tier 2 general purpose financial statements would already be required to prepare consolidated financial statements and therefore such a disclosure would not be necessary as when preparing general purpose financial statements all subsidiaries must be consolidated (unless the parent entity applies the exemption in AASB 10). Ultimately this is one of the notable differences between special purpose financial statements and general purpose financial statements, as in contrast, where an entity is preparing special purpose financial statements, users cannot be sure whether an entity did not consolidate its subsidiaries due to the exemption in AASB 10 or whether it was because it was determined that the group was not a reporting entity.

BC32 The Board also considered whether to require these entities to identify those subsidiaries that have not been consolidated. Whilst the Board acknowledged that this information might be useful to users of the financial statements, the Board noted that for some entities, particularly those in the not-for-profit private sector, this disclosure might be unduly burdensome, such as where entities are not required to determine whether they

18 "Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:
(a) Tier 1: Australian Accounting Standards; and
(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements." Paragraph 7 of AASB 1053.

have subsidiaries in accordance with AASB 10 to assess their financial reporting requirements. Thus, on balance, the Board decided that ED 293 would not require entities to disclose the identity of subsidiaries that have not been consolidated.

BC33 The Board noted the general requirement in paragraph 117 of AASB 101 to disclose accounting policies provides financial statement users with an explanation of the basis upon which the financial statements have been prepared, but does not provide information regarding how those accounting policies compare with all the recognition and measurement requirements in Australian Accounting Standards. Accordingly, the transparency of special purpose financial reporting is compromised. The Board therefore decided that it was necessary for an entity to explicitly disclose whether or not it complied with all the recognition and measurement requirements in Australian Accounting Standards and to supplement that disclosure with an indication of where they do not comply.

BC34 In relation to the requirement to provide an indication of where non-compliance exists (for example, where the entity has not provided for employee entitlements in a manner consistent with the requirements set out in AASB 119 *Employee Benefits*), the Board decided to express a broad principle (ie an indication of where the non-compliance exists) rather than take a more prescriptive approach (eg a description of the extent of non-compliance). This was because, in the Board's view, the explanation of that disclosure requirement in paragraphs IG6-IG8 of the *Implementation guidance and illustrative examples* (as proposed in ED 293) and the implementation guidance and illustrative examples themselves attached to AASB 1054 as non-mandatory material (see paragraph BC36 below) provide sufficient guidance for preparers to understand the nature of the information that is to be disclosed. As illustrated in the *Implementation guidance and illustrative examples* (as proposed in ED 293), the approach taken by the Board also leaves discretion for entities to determine how best to make the disclosure having regard to their particular circumstances and the needs of their users.

BC35 The Board did however confirm, that in disclosing the required information, the Board did not expect entities to provide quantitative information or reconciliations where their accounting policies do not comply with all the recognition and measurement requirements in Australian Accounting Standards.

BC36 The Board noted the view of some that, if the differences between an entity's accounting policies and the recognition and measurement requirements in Australian Accounting Standards are extensive, the preparation of the required disclosure could be onerous. To help address this concern, as referred to in paragraph BC34 above, the Board prepared a number of illustrative examples and flowcharts. The *Implementation guidance and illustrative examples* (as proposed in ED 293) is designed to provide examples of how the required information might be disclosed having regard to the existing variation and diversity to compliance with all the recognition and measurement requirements in Australian Accounting Standards in special purpose financial statements currently seen in practice.

BC37 The Board further noted the view that, depending on the current level of expertise, some entities might find it burdensome to determine whether their accounting policies comply with the recognition and measurement requirements in Australian Accounting Standards. The Board also made the observation that understanding whether or not the entity has complied with all the recognition and measurement requirements in Australian Accounting Standards is a part of good governance and therefore it is reasonable to expect the necessary level of expertise is available, and any costs of acquiring that expertise would be reasonably expected to be outweighed by the benefits. Furthermore, the Board confirmed that the amendment would not require an entity to change its existing accounting policies and therefore is not onerous.

BC38 While Options 3 and 4 in the table in paragraph BC27 above were not without their advantages, the Board decided they were not the most appropriate alternatives for a number of reasons including:

(a) a binary disclosure stating only 'non-compliance' as suggested in Option 3 would not be useful as users would not be able to discern an indication of the extent of recognition and measurement compliance or non-compliance; and

(b) Option 4 was not appropriate as, if an entity did not make the disclosure, users would also not be able discern the reason for non-compliance, that is, whether it was a recognition and measurement non-compliance or the omission of a disclosure requirement for example.

Accordingly, any costs that would be saved by adopting Options 3 or 4 relative to Option 2, including that they would result in less voluminous disclosure, would be clearly outweighed by the benefits to users of Option 2.

Other issues

BC39 Both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework* state that the Board does not currently set standards for special purpose financial statements, as such financial statements 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, the Board noted the view that those responsible for the preparation of special purpose financial statements should determine the extent to which they conform with Australian Accounting Standards and therefore it was not necessary for the Board to specify the disclosures proposed in ED 293.

BC40 Notwithstanding this, "as part of moving legacy regulations out of legislation and into Australian Accounting Standards …",[19] and as noted in paragraph BC19(c) above, Australian Accounting Standards AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054 apply to special purpose financial statements. The Board considered that this, especially the requirement in paragraph 9 of AASB 1054,[20] together with the needs of users noted in paragraph BC18 above, provided a sufficient basis for requiring the disclosures in special purpose financial statements proposed in ED 293. The Board was particularly concerned that a significant number of special purpose financial statements do not provide adequate disclosures to enable a user to determine whether they do need additional information to meet their needs.

Finalisation of ED 293 proposals

BC41 Following the consultation period, and after considering constituent comments received, the Board decided to proceed with issuing this Standard, however in doing so the Board made a number of decisions regarding the final proposals.

Feedback from respondents on ED 293

BC42 The Board received 14 formal comment letters on ED 293, and undertook targeted outreach with key stakeholders including professional bodies and regulators.

BC43 The key feedback received on ED 293 indicated that overall the majority of respondents agreed that the proposals set out in ED 293 would increase the transparency and comparability of special purpose financial statements, however a number of respondents had concerns about the costs that may be incurred by entities in making the disclosures proposed in ED 293 exceeding the benefits of the resulting information. Respondents were particularly concerned about the costs of the ED 293 proposals exceeding any benefits for for-profit private sector entities given the ED 293 proposals were intended to be only a short-term measure for these entities. This is because the broader project proposing to remove the ability for certain for-profit private sector entities to prepare special purpose financial statements when they are required to comply with Australian Accounting Standards is expected to be completed by 30 June 2020.

BC44 The Board considered this feedback and decided that in order to better balance any additional costs with any benefits to financial statement users, it was necessary to limit the scope of this Standard to apply only to not-for-profit private sector entities. This is because the broader project to remove the ability for certain not-for-profit entities to prepare special purpose financial statements when required to comply with Australian Accounting Standards would take some time. The Board also decided to amend the required disclosures related to compliance with Australian Accounting Standards to reduce any costs that may be incurred in complying with the new disclosures. The significant matters considered by the Board in making these decisions are addressed below.

Scope

BC45 The Board decided that the requirements of this Standard should apply only to not-for-profit private sector entities required by legislation or otherwise to comply with AASB 1054, such as medium and large charities with revenue greater than $250,000, registered with the ACNC and required to comply with the ACNC's reporting requirements relating to special purpose financial statements and companies limited by guarantee lodging financial reports with ASIC. The Board noted the ACNC expressed support for increased transparency of financial reporting in the charities sector with the additional disclosure requirements being viewed as a positive step towards greater transparency, accountability and good governance.

BC46 As noted in paragraph BC44 above, the disclosure requirements were amended (refer paragraphs BC48-BC57 below) to not require not-for-profit private sector entities to undertake more effort than they already have in regards to assessing compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards, as they could state that they have not made an assessment of compliance

19 Paragraph 14 of both *The AASB's For-Profit Entity Standard-Setting Framework* and *The AASB's Not-for-Profit Entity Standard-Setting Framework*.

20 Paragraph 9 of AASB 1054 requires an entity to disclose whether the financial statements are general purpose financial statements or special purpose financial statements.

with the recognition and measurement requirements in Australian Accounting Standards (refer paragraph BC49) if they wish to. The Board acknowledged that there is less clarity regarding compliance with the recognition and measurement requirements in Australian Accounting Standards in the special purpose financial statements of charities and considered that the new disclosures provide appropriate information for users without these entities incurring undue costs. The Board also confirmed the new disclosures should apply to not-for-profit private sector entities for annual reporting periods ending on or after 30 June 2020.

BC47 When deciding to limit the application of this Standard to not-for-profit private sector entities only, the Board noted feedback from respondents to ED 293 (refer paragraph BC43 above) that if the proposals in ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* to remove the ability for certain for-profit private sector entities to prepare special purpose financial statements are finalised as proposed, so that they are effective for annual reporting periods beginning on or after 1 July 2020, the requirements of this Standard would only be relevant for a short period of time for these for-profit private sector entities. The Board therefore considered that the costs to prepare the disclosures in this Standard for these for-profit private sector entities would arguably outweigh the benefits. If however the proposals in ED 297 are not finalised as proposed, the Board will reconsider the application of the requirements in this Standard for for-profit private sector entities.

Disclosure requirements

BC48 In order to simplify the new disclosures and minimise any possible burden associated with preparing the new disclosures, the Board decided to amend the disclosure requirements to adopt a two-step approach to assessing and disclosing compliance with the recognition and measurement requirements in Australian Accounting Standards and also clarified a number of other aspects of the disclosure requirements.

BC49 The Board decided that not-for-profit private sector entities required to apply this Standard should assess, for each material accounting policy applied and disclosed in the special purpose financial statements, whether the policy does not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128 *Investments in Associates and Joint Ventures*). If a material accounting policy does not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), that fact shall be disclosed with an indication of how it does not comply. Alternatively, if a not-for-profit private sector entity has not made this assessment, it should disclose that fact.

BC50 After making the disclosures noted in paragraph BC49, the not-for-profit private sector entity will then disclose, whether the financial statements overall:

(a) comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) - that is there are no material accounting policies disclosed in the special purpose financial statements that would not comply and have not been assessed in respect of the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128);

(b) do not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) - that is there are one or more instances of material accounting policies disclosed in the special purpose financial statements that do not comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128); or

(c) compliance with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) has not been assessed - that is there are one or more instances where the not-for-profit private sector entity has not assessed whether or not the material accounting policies disclosed in the special purpose financial statements comply with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).

BC51 The Board decided to include an option for a not-for-profit private sector entity to disclose that they have not assessed whether or not the accounting policies disclosed in the special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128), because allowing an entity to make such a disclosure would require minimal additional effort (as entities would not be required to complete additional assessment of compliance with the recognition and measurement requirements in Australian Accounting Standards but merely make the disclosures based on their existing understanding of the entity's accounting policies). This disclosure, however, would highlight potential instances of non-compliance with the recognition and measurement requirements in Australian Accounting Standards to users of the special purpose financial statements, as well as potential governance issues, and would also allow users of the special purpose financial statements to seek additional information if required.

BC52 The Board confirmed that it is their expectation that the new disclosures are intended to identify instances of non-compliance with the recognition and measurement requirements in Australian Accounting Standards that are material to the special purpose financial statements. The Board considered whether an entity that has disclosed non-compliance with the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) for an accounting policy that is not material to the entity, could still claim that its financial statements overall complied with the recognition and measurement requirements in Australian Accounting Standards. The Board confirmed if there is one instance of a material accounting policy applied and disclosed in the special purpose financial statements not complying with the recognition and measurement requirements in Australian Accounting Standards or not being assessed, the entity cannot claim that its financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards.

BC53 The Board acknowledged the diversity in views regarding whether or not consolidation and the equity method of accounting are recognition and measurement requirements, presentation and disclosure requirements, neither or both, and the effect this diversity in views may have on the ability of an entity to determine whether or not they have complied with all the recognition and measurement requirements in Australian Accounting Standards.

BC54 The Board considered whether the recent amendment to paragraph 9 of AASB 1053 made via AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* clarified that consolidation and the equity method of accounting are recognition and measurement requirements, however noted that the intention of this amendment was to provide certainty that an entity not consolidating or equity accounting must apply the transitional provisions in AASB 1 or AASB 108, and the Board had determined to not make a conclusive decision on it.

BC55 For the avoidance of doubt the Board decided to make it clear that for the purposes of the disclosures in paragraphs 9A(c) and 9A(d) of this Standard, recognition and measurement requirements exclude consolidation and the equity method of accounting as the application of consolidation and the equity method of accounting are the subject of separate disclosure requirements in this Standard.

BC56 The Board also reconsidered the proposal in ED 293 to relieve a not-for-profit entity from the requirement to determine whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures. The Board acknowledged that there may be some instances where a not-for-profit private sector entity may be required by legislation to make this determination to assess their financial reporting requirements, and therefore decided that this relief should only be available where there is no legislative requirement for a not-for-profit entity to make this determination. For example, and as noted in paragraph BC29, section 45A of the *Corporations Act 2001* requires the assessment of thresholds for small and large proprietary companies to be determined on a consolidated basis (ie the parent and the entities it controls (subsidiaries)) in accordance with the accounting standards even if the standards do not otherwise apply to some or all of the companies concerned. While it is not common, it is possible for a not-for-profit entity to be structured using a proprietary company structure and the entity would therefore be subject to section 45A of the *Corporations Act 2001*.

BC57 The *Implementation guidance and illustrative examples for not-for-profit private sector entities* was updated to reflect these decisions of the Board.

Due process

BC58 In responding to the specific feedback from respondents to ED 293 regarding the costs of the proposed disclosures exceeding any benefits and the short term nature of the proposals, particularly for for-profit private sector entities, the Board considered that as the disclosures required by this Standard apply only to not-for-profit private sector entities and are less burdensome than those proposed in ED 293 (while still providing users with useful information regarding whether or not an entity has complied with the recognition and measurement requirements in Australian Accounting Standards), there was no need to undertake further due process and re-expose the requirements of this Standard.

BC59 The Board also decided that notwithstanding its decision to limit the scope of the requirements in this Standard to not-for-profit private sector entities, issuing a fatal-flaw review version of this Standard for public comment was not required as the Board did not make any other major changes to the proposals in ED 293.

BC60 The Board also informed other regulators of the outcome of ED 293, to help them identify whether there are any regulatory consequences of the proposed disclosure requirements.

Effective date

BC61 The Board confirmed that the narrow scope amendment in this Standard is an interim measure, until the broader project proposing to remove the ability for certain entities to prepare special purpose financial statements is completed (which would take some time for not-for-profit entities), and confirmed, as outlined in this Basis for Conclusions, that the amendment is urgently needed to provide more transparency to the users of publicly lodged special purpose financial statements of not-for-profit private sector entities and to increase the comparability of special purpose financial statements with other special purpose financial statements and general purpose financial statements.

BC62 As noted in paragraph BC37 above, the amendments do not require entities to change their existing accounting policies or perform additional assessment of compliance with the recognition and measurement requirements in Australian Accounting Standards, and therefore the information required to be disclosed is based on an entity's existing financial reporting policies and practices. Accordingly, it is not necessary to provide an extended operative date.

BC63 Based on the above, the Board decided this Standard should be effective for annual periods ending on or after 30 June 2020, with early voluntary disclosure allowed.

Basis for Conclusions on AASB 2019-5

This Basis for Conclusions accompanies, but is not part of, AASB 1054. The Basis for Conclusions was originally published with AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 In line with the Board's Key Performance Indicators, when an IFRS Standard is issued by the International Accounting Standards Board (IASB), the Board aims to issue an equivalent Australian Accounting Standard within two months of the release of the IFRS Standard. The Board's intention is that for-profit publicly accountable entities that comply with Australian Accounting Standards should be able to assert compliance with IFRS Standards.

BC3 The Board noted that, without these amendments, this would not be possible in a situation where an entity's reporting date falls between the date of the IASB issuing an IFRS Standard and the AASB issuing the corresponding Australian Accounting Standard, as the AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* disclosure requirements would not apply in relation to that IFRS Standard. Under these circumstances, an entity would not be able to assert compliance with IFRS Standards unless it elected to make the disclosures set out in paragraphs 30 and 31 of AASB 108 in relation to that IFRS Standard.

BC4 The Board decided to add an additional disclosure requirement to AASB 1054 *Australian Additional Disclosures* requiring an entity that intends to comply with IFRS Standards to disclose the information in paragraphs 30 and 31 of AASB 108 on the potential effect on the entity's financial statements of an IFRS Standard that has not yet been issued by the Board. This disclosure requirement will be particularly relevant to for-profit publicly accountable entities seeking IFRS compliance. Not-for-profit entities need not provide the disclosures if they are not able to or are not seeking to comply with IFRS Standards.

BC5 The disclosures set out in paragraphs 30 and 31 are not required of Tier 2 entities under Australian Accounting Standards – Reduced Disclosure Requirements. Similarly, these disclosures are not proposed to be required of Tier 2 entities in Exposure Draft ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.* Therefore, the Board decided it would be appropriate not to require Tier 2 entities to provide the disclosures in relation to new IFRS Standards not yet issued in Australia. Tier 2 entities preparing general purpose financial statements under the Reduced Disclosure Requirements will not be in compliance with IFRS Standards, and so such entities could not intend to comply with IFRS Standards. Although the disclosure requirement therefore would not apply to Tier 2 entities, the Board decided to make explicit the non-application to Tier 2 entities.

BC6 The Board also noted that the New Zealand equivalent of AASB 1054, Financial Reporting Standard FRS 44 *New Zealand Additional Disclosures*, has been amended similarly in relation to IFRS Standards that have not yet been issued in New Zealand. *The AASB's For-Profit Entity Standard-Setting Framework* requires that, wherever possible, differences between accounting standards issued in Australia and New Zealand should be minimised to reduce costs for entities operating trans-Tasman.

Issue of Fatal-Flaw Review version

BC7 In October 2019, the Board issued a Fatal-Flaw Review version of the amendment for public comment with a two-week comment period. The Board decided to provide only a short comment period as it considered the matter was straightforward and not controversial. The Board received one submission on the Fatal-Flaw Review version. The Board considered the feedback received and decided that the proposed amending Standard did not require amendment and that further due process was not needed. Accordingly, the Board finalised the amending Standard to add the disclosure requirement to AASB 1054.

Basis for Conclusions on AASB 2022-4

This Basis for Conclusions accompanies, but is not part of, AASB 1054. The Basis for Conclusions was originally published with AASB 2022-4 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

BC2 In setting out the Board's reasons for issuing this Standard, the following section includes the historical context and the relationship of the project that gave rise to this Standard to similar Board projects pertaining to different types of entities. Later sections then:

(a) summarise the rationale for the pertinent proposals that were exposed for public comment in Exposure Draft ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*, which led to the development of this Standard; and

(b) explain why some ED 302 proposals and some views expressed by respondents to ED 302 (particularly those not adequately addressed in the Basis for Conclusions on ED 302) were not adopted in the Standard.

Reasons for issuing this Standard

BC3 In 2018 the Board initiated a broad project to address the issues associated with special purpose financial statements (SPFS) reporting in the for-profit private sector.[1] As part of that project, the Board proposed, through Exposure Draft ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (August 2019), to remove the option for some types of for-profit private sector entities to prepare SPFS when they are required to comply with Australian Accounting Standards (AAS). ED 297 proposed an operative date of annual reporting periods beginning on or after 1 July 2020 and led to the issue of AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (March 2020). AASB 2020-2, operative instead for reporting periods beginning on or after 1 July 2021, made amendments to AAS to disallow the preparation of SPFS by the following entities (and, consistent with that, to also remove the 'reporting entity' concept for them):

(a) entities required by legislation to prepare financial statements that comply with either AAS or accounting standards; and

(b) entities required by their constituting document or another document to prepare financial statements that comply with AAS, provided the relevant document was created or amended on or after 1 July 2021 (to coincide with AASB 2020-2's operative date).

The Basis for Conclusions accompanying AASB 2020-2 explains the Board's reasons for the decisions it made in that Standard and provides more information about the issues with SPFS reporting. (The Basis for Conclusions is also published with AASB 1057 *Application of Australian Accounting Standards*.)

BC4 Given the limited scope of AASB 2020-2, the problems associated with SPFS prepared by for-profit private sector entities that are required to prepare financial statements that comply with AAS were not entirely resolved. This is because AASB 2020-2:

(a) did not become immediately operative (AASB 2020-2 was issued in March 2020); and

(b) contains an exemption that allows for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS

1 Public sector entities were excluded from the scope of this broad project because the Board had a separate project addressing the public sector financial reporting framework.

to continue preparing SPFS if the relevant document was created before 1 July 2021 and not amended on or after that date.

BC5 The continued preparation of SPFS that state compliance with AAS without further explanation, whether temporarily (until an entity transitioned to general purpose financial statements (GPFS) in accordance with AASB 2020-2) or for the foreseeable future (in relation to entities referred to in paragraph BC4(b)), remained a concern to the Board. Consistent with the *AASB Evidence-Informed Standard-Setting Framework*, the Board decided to address its concern by considering whether to issue a Standard having regard to the evidence it gathered through outreach to stakeholders and other forms of research. That research evinced users' clearly stated views on the importance of understanding the recognition and measurement (R&M) basis of preparation of financial statements. The Board also noted the findings of AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019), which indicated the current deficiencies in clearly reporting the basis of preparation in SPFS (see also paragraphs BC20-BC22 of the Basis for Conclusions on AASB 2020-2).

BC6 The Board noted some stakeholders were concerned about a lack of research-based evidence that demonstrates disclosure requirements would assist users' understanding of SPFS prepared by entities within the scope of this Standard. This concern arose because AASB Research Report 12 is based on data relating to entities within the scope of AASB 2020-2, rather than the types of entities referred to in paragraph BC4(b), and in any event it predates the change in proprietary company reporting thresholds under the *Corporations Act 2001* and therefore does not provide any current analysis. However, the Board came to the view that the Research Report provides evidence by analogy as there is no basis to expect that SPFS of the types of entities referred to in paragraph BC4(b) would have adopted better disclosure practices than the SPFS of the types of entities that were the focus of the Research Report (see paragraph BC7). Furthermore, the evidence provided by the Research Report was supplemented by the findings of outreach undertaken in December 2018 to understand users' views as part of improving the Australian Financial Reporting Framework, which was considered by the Board at its April 2020 meeting (see paragraph BC8).

BC7 AASB Research Report 12 indicated that for 34% of examined entities preparing and lodging SPFS with the Australian Securities and Investments Commission (ASIC) in 2018, the extent of compliance with R&M requirements in AAS was not clear. After a detailed, qualitative assessment of the accounting policies of these unclear SPFS by the researchers, Research Report 12 concluded:

(a) 10% of the total population of SPFS did not appear to be following all R&M requirements in AAS, despite only 0.5% of the total clearly stating so;

(b) 76% appeared to follow all R&M requirements in AAS; and

(c) the extent of compliance (or otherwise) with the R&M requirements in AAS of the remaining 14% of SPFS was unclear.

BC8 The December 2018 research conducted via a survey of users of financial statements prepared by for-profit private sector entities found:

(a) on average, 93% of primary users and more than 95% of other users said comparability, transparency, comprehensibility and consistency are what they need most in financial statements; and

(b) only 43% of primary users and 56% of other users said they are satisfied with the information presented in SPFS.

Respondents to this survey were generally involved with entities within the scope of AASB 2020-2, although there were a number involved with the types of entities referred to in paragraph BC4(b), such as limited partnerships, incorporated associations and trusts. On that basis, the Board concluded the findings of the research are relevant in supporting the Board's view that users of SPFS prepared by entities within the scope of this Standard would benefit from specific SPFS disclosure requirements.

BC9 In light of ED 297's limited scope and anticipating the proposals in ED 297 would not be reflected in a Standard for some time after ED 297 was published for comment, the Board had also issued Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (July 2019). ED 293 proposed requiring for-profit and not-for-profit private sector entities lodging SPFS with either the ASIC or the Australian Charities and Not-for-profits Commission (ACNC) to disclose information in their SPFS that would allow users to understand the extent of compliance or otherwise of the entity's accounting policies with the R&M requirements in AAS.[2]

2 In relation to for-profit private sector entities, the proposals were developed as an interim measure while the Board continued with its ED 297 proposals.

BC10 The feedback received on ED 293 indicated the majority of respondents agreed the proposals would increase the transparency and comparability of SPFS. However, due to the short time within which the proposed requirements would become mandatory in light of the expected timing of the release of a Standard based on ED 297's proposals, respondents were particularly concerned about the costs of the proposals exceeding any benefits for for-profit private sector entities. This is because the proposal in ED 297 to remove the ability for certain for-profit private sector entities to prepare SPFS when they are required to comply with AAS was expected to be completed and, as noted in paragraph BC3, operative for annual reporting periods beginning on or after 1 July 2020.

BC11 After considering this feedback, the Board decided at that time the proposals in ED 293 should apply only to not-for-profit private sector entities. The Board decided it would revisit the application of the proposals in ED 293 for for-profit private sector entities if the proposals in ED 297 were not finalised as proposed. Consequently, the Board issued AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* (November 2019), operative for annual reporting periods ending on or after 30 June 2020.

BC12 As indicated in paragraph BC3, the Board decided the effective date of AASB 2020-2 should be one year later than what was proposed in ED 297. It arrived at this decision after considering feedback from respondents to ED 297 that entities needed more time to prepare for the implementation of the proposals – see also the reasons noted in paragraph BC149 of the Basis for Conclusions on AASB 2020-2. As a consequence of the deferral of the effective date, the Board decided it was necessary to revisit the proposals in ED 293 in relation to for-profit private sector entities that were not yet required to apply AASB 2020-2, as well as for the types of entities referred to in paragraph BC4(b). Consequently, ED 302 was issued in June 2020, which as noted in paragraph BC2 led to the development of this Standard.

Issue of Exposure Draft ED 302

BC13 The significant issues considered by the Board in developing ED 302 that are pertinent to this Standard are addressed in this section.

Scope

BC14 When considering which for-profit private sector entities should be required to make the ED 302 proposed disclosures,[3] the Board considered whether the disclosures should be required by:

(a) only those entities preparing SPFS that are directly subject to AASB 1054 *Australian Additional Disclosures* (for example, an entity with a direct reference to application of AASB 1054 in its trust deed); or

(b) those for-profit private sector entities that are required by legislation (eg Part 2M.3 of the *Corporations Act 2001* or other legislation) to prepare financial statements that comply with either AAS or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS provided the relevant document was created before 1 July 2021 and not amended on or after that date; or

(c) those entities referred to in option (b), with a threshold to limit the requirements to those entities that would meet the requirements to be considered a large proprietary company under the Corporations Act; or

(d) those entities referred to in option (b), but only where their SPFS state they have been prepared in compliance with AAS.

BC15 For the purposes of ED 302, the Board decided to propose option (b), noting:

(a) option (a) would not achieve the objective of the proposed amendments as it would not include all entities with a non-legislative requirement to prepare financial statements that comply with AAS;

(b) option (c) was not the most appropriate alternative as it would be relatively complex to apply. It would also add to the overall complexity of AAS because it would result in exemptions for certain entities that are already subject to exemptions (in particular, the scope exemptions from the removal of SPFS for for-profit private sector entities made in AASB 2020-2);

3 With limited exceptions, consistent with transaction neutrality the proposed disclosures in ED 302 for for-profit entities were based on the disclosures specified in AASB 2019-4 for not-for-profit entities.

(c) option (d) was not the most appropriate alternative for similar reasons to option (c). In addition, the Board was concerned this option might allow any resulting disclosure requirements to be readily circumvented simply through non-disclosure of compliance with AAS, despite an entity's constituting document requiring compliance with AAS without explicitly requiring disclosure of compliance with AAS; and

(d) in adopting option (b), the Board did not expect the proposed disclosures in ED 302 to be onerous. However, it acknowledged that implementing option (b) in paragraph BC14 by making amendments to the application of AASB 1054 (via AASB 1057) would result in a number of entities becoming subject to AASB 1054 for the first time. Furthermore, the Board noted AASB 1054 specifies disclosures that are potentially beyond the scope of the project that gave rise to this Standard. For this reason, ED 302 proposed limiting the application of the existing disclosure requirements in AASB 1054 for those entities preparing SPFS. Consequently, ED 302 proposed that such entities should only be required to comply with proposed paragraph 9C (and paragraph 9D referring to implementation guidance is also relevant) in applying AASB 1054. That approach would leave it to the entities to decide with which other disclosure requirements in AAS to comply, based on their assessment of the needs of the users of their SPFS.

BC16 ED 302 also proposed specific amendments to paragraph 2 of AASB 1057 to extend the set of entities to which AASB 1057 applies. This was necessary in order to extend the set of entities to which AASB 1054 applies and give effect to option (b) in paragraph BC14. The amendments to AASB 1057 proposed in ED 302 would not extend the application of any other AAS to the for-profit private sector entities covered by the proposals (see also paragraphs BC19-BC21).

Disclosure of the basis on which the decision to prepare SPFS was made

BC17 ED 302 proposed that an entity be required to disclose an explanation for why SPFS had been prepared, for the same reasons articulated in paragraph BC24-BC26 of the Basis for Conclusions on AASB 2019-4 (which is published with AASB 1054) and consistent with the existing responsibilities of those charged with governance with respect to the selection and application of an entity's financial reporting framework. In drafting the proposed illustrative examples to accompany ED 302, the Board did not use the phrase 'not a reporting entity' to explain why the entity had prepared SPFS. Consistent with AASB 2020-2 limiting the application of the reporting entity concept by for-profit private sector entities, the Board considered entities need to more clearly articulate the reasons why they prepare SPFS. Reasons why SPFS have been prepared may include users of the financial statements being in a position to command the information they require.

Disclosure of accounting policies

BC18 The Board noted many entities within the scope of the proposed amendments in ED 302 were not required by AAS to disclose information about the accounting policies applied in their SPFS. Without this, information about the extent of the entity's compliance or otherwise with the R&M requirements in AAS might be incomplete. Therefore, the Board decided to include in ED 302 a proposal to require entities to disclose information about the material accounting policies applied, including the measurement basis (or bases) used and information about changes in those accounting policies, such as the nature of the change and the reasons why the change was made.

BC19 The Board noted that entities required by legislation to prepare financial reports in accordance with AAS or accounting standards are generally required to comply with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054, even in preparing SPFS. For example, this is specified in paragraph 7 of AASB 1057 for entities within the scope of Part 2M.3 of the Corporations Act. Entities registered with the ACNC are also specifically required to comply with those Standards by the *Australian Charities and Not-for-profits Commission Act 2012*. However, such requirements do not apply to entities within the scope of this Standard, which simply have a reference to AAS in their constituting or other documents, rather than in legislation.

BC20 In that regard, the Board considered proposing to expand the scope of AASB 101, AASB 107, AASB 108 and AASB 1048 consistent with the proposed expanded scope of AASB 1054, but decided not to do so. This was because, while the Board saw merit in this approach, requiring all entities within the scope of the proposed amendments to AASB 1054 to comply with all the requirements contained in those Standards was considered too onerous.

BC21 The Board also noted that if the approach considered in paragraph BC20 were to be adopted, as the Standards referred to in that paragraph contain certain R&M requirements (such as accrual accounting and applying the going concern basis of preparation), this would then impose a requirement on all entities within the scope of the proposed amendments to adopt minimum R&M requirements. The Board concluded setting minimum R&M requirements in SPFS was beyond the objective of ED 302 (and beyond the objective of this Standard).

Disclosures regarding compliance with all the R&M requirements in AAS

BC22 Both *The AASB's For-Profit Entity Standard-Setting Framework* (May 2018) and *The AASB's Not-for-Profit Entity Standard-Setting Framework* (May 2018) are predicated on transaction neutrality, that is, like transactions and events should be accounted for in a like manner by all types of entities, unless there is a justifiable reason not to do so.

BC23 The Board considered whether it was appropriate to propose for-profit private sector entities within the scope of ED 302 should make the same disclosures regarding their material accounting policies as those required by not-for-profit private sector entities through AASB 2019-4, or whether for-profit private sector entities should be required to make different disclosures. Most significantly, the Board noted AASB 2019-4 contains options for a not-for-profit private sector entity to disclose in its SPFS that it has not assessed certain aspects that would otherwise be required to be assessed and disclosed. Those aspects are:

(a) whether or not the entity's interests in other entities give rise to interests in subsidiaries, associates or joint ventures for financial reporting purposes; and

(b) whether or not the entity's material accounting policies comply with the R&M requirements in AAS.

BC24 These options were included in AASB 2019-4 because:

(a) for entities in the not-for-profit private sector, disclosure of compliance might be unduly burdensome, such as where entities are not required to determine whether they have subsidiaries in accordance with AASB 10 *Consolidated Financial Statements* to assess their financial reporting requirements (paragraph BC32 of the Basis for Conclusions on AASB 2019-4); and

(b) allowing an entity to make a no-assessment disclosure would require minimal additional effort, but would highlight potential instances of non-compliance with the R&M requirements in AAS to users of the SPFS, as well as potential governance issues, and would also allow users of the SPFS to seek additional information if required (paragraph BC51 of the Basis for Conclusions on AASB 2019-4).

BC25 The Board acknowledged those for-profit private sector entities with a non-legislative requirement to prepare financial statements that comply with AAS might benefit from being able to disclose they have not assessed compliance with certain AAS requirements, for reasons consistent with those noted in paragraph BC24. However, the Board took the view for-profit private sector entities typically would be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the R&M requirements in AAS under a good-governance approach to financial reporting. The Board also considered that while many of these entities might be small in size, they typically would not have overly complex accounting requirements or transactions in this case, and this assessment would therefore be relatively straightforward.

BC26 The Board considered that the reasons outlined in paragraphs BC24 and BC25 meet the requirements of the standard-setting frameworks as justifiable reasons why for-profit and not-for-profit private sector entities should have different disclosure requirements.

BC27 The Board also noted that although it did not expect these disclosures to be onerous for for-profit private sector entities, those entities would still have the option of changing their constituting or other documents to avoid reference to AAS should they wish to do so, which would scope them out of this Standard.

Operative date

BC28 ED 302 proposed an operative date of annual reporting periods ending on or after 30 June 2021. The Board considered this date would result in those entities with a legislative requirement to comply with AAS or accounting standards being required to include the disclosures in their SPFS for one year before they would be required to transition to GPFS under AASB 2020-2. Other entities, with a non-legislative requirement to comply with AAS, would also be required to comply promptly, thereby meeting the needs of users of SPFS in a timely way. The Board was of the view that compliance with R&M requirements is part of good governance and a number of these entities should already be complying with R&M requirements, and therefore the proposals would not be onerous.

BC29 The Board also noted that, when deciding the effective date of AASB 2019-4 for not-for-profit private sector entities, it was not necessary to provide an extended operative date as the amendments did not require entities to change their existing accounting policies. At the time of issuing ED 302, the Board's view was that the rationale adopted for the operative date of AASB 2019-4 would also apply in the for-profit private sector context. On considering the comments from respondents to ED 302 on this matter and taking into account other factors, the Board decided to defer the proposed operative date of this Standard, as explained in paragraphs BC33 and BC34.

Outcome of ED 302

BC30 Following the consultation period, and after considering stakeholder comments, the Board decided to proceed with the proposals in ED 302, but with some significant changes. The Board's bases for the proposals it decided to retain are articulated in the Basis for Conclusions accompanying ED 302, and are summarised here in paragraphs BC3-BC27. Accordingly, as noted in paragraph BC2(b), after providing an overview of the feedback received on ED 302, the remainder of this Basis for Conclusions focuses primarily on the significant proposals in ED 302 that the Board decided to change, and the rationale for doing so. It also addresses some issues raised by respondents to ED 302 that, although they did not give rise to changes to the proposals, warrant further explanation.

Feedback from respondents on ED 302

BC31 The Board received 13 formal comment letters on ED 302, with a mix of views from respondents.

BC32 A number of respondents expressed concern that the cost of implementing the ED 302 proposals would exceed any benefits. This was particularly the case for those for-profit private sector entities with a legislative requirement to comply with AAS, given the proposals for these entities were proposed to be effective from 1 July 2020 and therefore would apply for only one year. This was because, as noted above, the amendments in AASB 2020-2 removed the ability of these entities to prepare SPFS for annual reporting periods beginning on or after 1 July 2021.

BC33 A number of respondents also expressed concern that the proposed effective date of 1 July 2020 would provide insufficient time for entities to prepare for the new requirements. Furthermore, some respondents suggested delaying the proposed effective date to align with the operative date of AASB 2020-2. This would effectively exclude entities with a legislative requirement to comply with AAS from the scope of the proposals as well.

BC34 The Board considered this feedback and decided, for the reasons noted in paragraphs BC38 and BC39, it was appropriate to delay the effective date of the final amendments and in doing so exclude those entities with a legislative requirement to comply with AAS or accounting standards from the scope of the Standard.

BC35 Other significant matters considered by the Board in making this and other decisions are addressed below.

Scope

BC36 The Board decided this Standard should apply only to those for-profit private sector entities required only by their constituting document or another document to prepare financial statements that comply with AAS, provided the relevant document was created before 1 July 2021 and not amended on or after that date. In paragraph BC85 of the Basis for Conclusions on AASB 2020-2, the Board explained that these entities were excluded from the scope of AASB 2020-2 and therefore permitted to continue preparing SPFS because they prepare financial statements for specific users, have no external regulator and the financial statements are not lodged on the public record. However, the Board remained concerned about the lack of transparency of SPFS that continue to refer to AAS. As a result, to help ensure users are adequately informed, it came to the view the SPFS of these entities should be required to disclose information about the extent of their compliance or otherwise with the R&M requirements in AAS. In addition, the Board noted anecdotally there would be some types of entities, such as securitised trading trusts, outside the scope of AASB 2020-2 (and therefore permitted to continue preparing SPFS) but lodging SPFS on the public record that are required only by their constituting document or another document to comply with AAS. Accordingly, in the absence of this Standard, there would be publicly available SPFS that do not necessarily specify whether or not they comply with R&M requirements of AAS, despite being required by a constituting or other document to comply with AAS. The Board was concerned this would not satisfy the needs of users.

BC37 The Board also considered whether to broaden the scope of the requirements in this Standard to other entities that are not currently within the application paragraphs of AAS set out in AASB 1057, such as entities voluntarily preparing SPFS or entities preparing SPFS due to a requirement in their constituting document or another document to present a 'true and fair view' or to comply with 'GAAP' (whether generally accepted accounting principles or generally accepted accounting practices), without those terms being explicitly defined or specified as AAS. However, the Board decided the scope of this Standard should not include such entities for the same reasons it did not include them in the application paragraphs of AAS (see paragraph BC79 of the Basis for Conclusions on AASB 2020-2).

BC38 As noted in paragraph BC34, the Board decided to exclude from the scope of this Standard for-profit private sector entities required by legislation to prepare financial statements that comply with either AAS or accounting standards (ie entities within the scope of AASB 2020-2). This acknowledges what would otherwise be a short-term effect of the proposals in ED 302 for these entities, caused by delays in the issue of this Standard due to the COVID-19 pandemic's impact on the Board's work program. The Board noted that, at the time of issuing ED 302, the implications of COVID-19 could not have been predicted. The basis for this decision is consistent with the reason for the earlier decision to exclude for-profit private sector entities from the scope of AASB 2019-4 (see paragraph BC47 of the Basis for Conclusions on AASB 2019-4).

BC39 The Board concluded that excluding these entities from this Standard would allow them to use the extra time to prepare for transitioning to GPFS in accordance with AASB 2020-2 and it would be a reasonable and pragmatic way of providing some resource relief during the pandemic. The Board also concluded excluding these entities would have a limited adverse effect on users and, on that basis, the Board accepted the practical arguments expressed by some stakeholders that the introduction of new disclosure requirements for these entities would add unreasonable incremental time to prepare and audit SPFS for years ending on or after 30 June 2021.

Disclosure regarding the reporting framework and whether the financial statements are general purpose or special purpose

BC40 In addition to the proposed disclosure requirements in ED 302 that the Board decided to incorporate into this Standard, as noted in paragraph BC15(d), the Board considered whether selected pre-existing disclosure requirements in AASB 1054 should be required of entities within the scope of this Standard. In particular, the Board considered whether paragraphs 8 and 9 of AASB 1054 (relating to disclosure of the reporting framework under which the financial statements are prepared and whether the financial statements are SPFS or GPFS) should be required. As part of its consideration, the Board noted similar disclosures required by AASB 2019-4 apply only to not-for-profit private sector entities that were already within the scope of AASB 1054, whereas the scope of this Standard includes entities not previously within the scope of AASB 1054. Despite this, the Board concluded paragraphs 8 and 9 of AASB 1054 are consistent with the objective of this Standard and help describe the basis of accounting. Accordingly, the Board decided paragraphs 8 and 9 of AASB 1054 would provide useful information at minimal cost as this information is expected to be readily available to an entity. The Board further noted that in order to make the disclosure required by paragraph 9C(a) of AASB 1054 (ie "to disclose the basis on which the decision to prepare SPFS was made"), the information that is the subject of paragraphs 8 and 9 of AASB 1054 would need to be considered by the entity anyway.

Disclosure regarding accounting policies for joint operations

BC41 Some respondents to ED 302 expressed a view that joint operations within the scope of AASB 11 *Joint Arrangements* should be excluded from the requirement to disclose overall compliance with R&M requirements. They argued this by analogy with how ED 302 proposed dealing with disclosures about an entity's accounting policies relating to subsidiaries, associates and joint ventures. The Board concluded that an exclusion for joint operations (in addition to the exclusion for subsidiaries, associates and joint ventures) is not required and would not be appropriate. This is because paragraph 20 of AASB 11 requires a joint operator, being the entity preparing the financial statements (whether consolidated or unconsolidated), to recognise its share of the assets, liabilities, revenue and expenses in a joint operation – and therefore it is clearly an R&M requirement. The Board also noted paragraph 21 of AASB 11 clarifies that the requirements relating to the entity's share of those amounts are accounted for in accordance with the requirements (including R&M) of other relevant AAS. The definition of a joint operation also confirms this, on the basis that it refers to the entity's rights and obligations to the assets and liabilities. Therefore, non-compliance with AASB 11 as it applies to joint operations would be a clear non-compliance with R&M requirements in AAS.

BC42 Given the nature of joint operations, their accounting treatment is fundamentally different from that of subsidiaries, associates and joint ventures. As such, it would be inappropriate to also exclude them from the overall R&M disclosure required by this Standard, potentially implying they are not R&M requirements.

The Board also noted that paragraphs 9C(e) and 9C(f) of this Standard are consistent with paragraph 9C(d), which also does not refer to AASB 11.

Disclosure regarding subsidiaries, investments in associates or investments in joint ventures

BC43 The Board considered whether an entity that has no subsidiaries, investments in associates or investments in joint ventures should be required to make an explicit statement to this effect. The Board had considered the same issue in the context of not-for-profit private sector entities in the development of AASB 2019-4. At that time the Board noted entities preparing either Tier 1 or Tier 2 GPFS are not required to make such a statement. Consistent with that, the Board decided an explicit statement would not be required in SPFS of not-for-profit private sector entities, as noted in paragraph BC30 of the Basis for Conclusions on AASB 2019-4. The Board also noted that, in any event, users of financial statements could reasonably be expected to be able to discern from the absence of the other disclosures (eg paragraph 9C(d) of AASB 1054, which results in disclosures only when the entity has interests in other entities) that the entity has no subsidiaries or interests in associates or joint ventures. Therefore, the Board concluded that an explicit statement for entities within the scope of this Standard should not be required.

Disclosures regarding compliance with all the R&M requirements in AAS

BC44 The Board noted the view that the disclosure requirement in paragraph 9C(f) of this Standard – overall compliance with R&M requirements in AAS – is redundant given the disclosure requirement in paragraph 9C(e) about each material accounting policy that does not comply with AAS R&M requirements. In response, the Board noted that, like AASB 2019-4, this Standard follows a two-step approach (first paragraph 9C(e) and then paragraph 9C(f)) to assessing and disclosing compliance or otherwise with the R&M requirements in AAS (other than AASB 10 and AASB 128). This approach is designed to minimise the burden associated with preparing the disclosures by having entities assess first whether or not their material accounting policies comply with AAS R&M requirements, and then whether the financial statements overall comply with AAS R&M requirements. If all material accounting policies comply with AAS R&M requirements, there is no disclosure to be made under paragraph 9C(e), which is why paragraph 9C(f) is useful as a way to make clear to users the financial statements do in fact comply with all R&M requirements. Although the Board noted AAS usually only require an entity to disclose where they have not complied with AAS requirements, in this case requiring an entity to disclose it has complied is useful for users and is not an onerous requirement. Furthermore, without paragraph 9C(f), if an entity has one or more instances of material non-compliance with R&M requirements, without disclosing overall non-compliance it may not be readily evident to users that this is the case.

BC45 The Board reaffirmed its decision to not provide entities within the scope of this Standard an option to state they have not assessed compliance with certain AAS requirements. The Board noted the contrary view that allowing a 'not assessed' option might be a means of responding to cost/benefit concerns expressed by respondents to ED 302, whilst still providing useful information that would put users on notice that the financial statements might not comply with all the R&M requirements in AAS. However, consistent with the reasons in paragraph BC25 and the fact the Board had not identified any new arguments in the responses to ED 302, the Board did not accept that contrary view. The Board also noted deferral of the effective date as mentioned in paragraph BC51 would provide entities with sufficient time to consider any possible complexities or challenges in making the disclosures, and therefore the 'not assessed' option was not warranted.

Disclosures regarding omitted AAS disclosures

BC46 Some respondents to ED 302 expressed a view the disclosure requirements in this Standard should be expanded to require an entity's SPFS to identify AAS where it has elected to omit material disclosures that would otherwise be included in GPFS in accordance with those AAS. For example, where the entity elects to not disclose related party transactions, it should be required to disclose its election not to make any disclosures under AASB 124 *Related Party Disclosures*. The Board considered that while disclosures regarding omitted AAS disclosures might be useful for users of SPFS, the scope of this Standard and the related amendments are aimed at increasing the transparency and comparability of SPFS in relation to compliance with the R&M requirements in AAS rather than AAS disclosure requirements. The Board also noted this matter was previously considered as part of the feedback received on ED 293 and the Board decided against requiring additional AAS disclosures as it was beyond the scope of the project that resulted in AASB 2019-4. Consistent with AASB 2019-4, the Board considered matters relating to omitted disclosures are beyond the scope of the project that resulted in this Standard.

Other issues

Consistency with the Standard-Setting Framework

BC47 Some respondents to ED 302 expressed a view that a Standard based on the proposals would contradict *The AASB's For-Profit Entity Standard-Setting Framework* (the Framework), and therefore this Standard should not be issued. This was on the basis that the Framework states "the AASB currently does not set recognition and measurement requirements for SPFS. This is because SPFS should only be prepared where users can tailor the SPFS to their own information needs and therefore do not need a standard-setter or regulator to specify the accounting policies or require disclosure of the information for them."

BC48 The Board considered this view in light of its decision relating to disclosures in SPFS of not-for-profit private sector entities as reflected in AASB 2019-4. The Board acknowledged that the appropriateness of the justifications noted in the Basis for Conclusions on AASB 2019-4 (in particular paragraph BC40) for rejecting these respondents' views are less apparent for entities within the scope of this Standard, but nonetheless concluded this Standard is justifiable under the Framework. The Framework notes the Board does not set R&M requirements for SPFS. In this Standard, the Board is adding limited disclosure requirements for SPFS, in the same way as it did for not-for-profit private sector entities under AASB 2019-4. This Standard does not set R&M requirements for SPFS.

Overall justification for this Standard

BC49 In deciding to issue this Standard, the Board noted the anecdotal feedback it had received that this Standard is unreasonable because many references to AAS historically were included in the constituting documents of entities without those entities having a full appreciation of the implications of the reference being ambulatory rather than static. However, the Board concluded this Standard is justified for the reasons indicated in paragraphs BC3-BC12 and on the basis the Board's acknowledgement of the history of AAS references in constituting documents is the main reason the Board decided on only contextual disclosures for SPFS rather than requiring a more onerous transition to GPFS by entities within the scope of the Standard. Furthermore, overall, the Board concluded the requirements in this Standard are commensurate with the evidence from the research outlined in paragraphs BC5-BC8. Additional research would unduly delay the project and would only be justified if the requirements were to be more onerous, such as mandating R&M requirements.

BC50 Paragraph 18 of the *AASB For-Profit Entity Standard-Setting Framework* (July 2021) states: "Enforcement of the preparation of financial statements and compliance with Accounting Standards is the responsibility of other regulators ... It is not the responsibility of the AASB." Consistent with that, the Board noted its role and expertise in relation to this Standard is to determine the appropriate accounting framework and accounting standards that should apply where financial statements are required by constituting or other documents to comply with AAS. Requiring additional disclosures in SPFS to provide greater transparency and comparability regarding compliance with the R&M requirements in AAS is consistent with this role.

Effective date

BC51 The Board initially decided this Standard should be effective for annual reporting periods beginning on or after 1 July 2021, with earlier application permitted. This effectively deferred the proposed operative date by 12 months. In making this decision the Board acknowledged anecdotal feedback that some issues faced by small entities within the scope of this Standard might be more complex than originally thought. After the issuance of ED 302, the Board became aware that in some instances, for example when applying AASB 15 *Revenue from Contracts with Customers* or AASB 119 *Employee Benefits*, it may be difficult for smaller entities to determine whether they are complying with the R&M requirements in AAS, such as an entity calculating employee benefits (eg long service leave) when they have staff with long tenure.

BC52 Consistent with the Board's view in paragraph BC34, the Board concluded deferring the proposed operative date by 12 months (with early adoption allowed) would give entities within the scope of this Standard enough time to prepare for the implementation of the disclosures. It would also be a way for the Board to address the fact that the economic impact of COVID-19 has been significant, is ongoing, and could not have been predicted when issuing ED 302 and proposing an operative date.

BC53 Given subsequent delays in finalising this Standard, the Board revised the operative date to periods ending on or after 30 June 2022, which in substance covers the same periods as periods beginning on or after 1 July

2021. Short periods beginning on or after 1 July 2021 and ending before 30 June 2022 would not be covered, but these would be very unusual and therefore of limited significance in aggregate. Earlier application is permitted.