



<b>Project:</b>	<b>Australian Financial Reporting Framework</b>	<b>Meeting:</b>	AASB June 2021 (M181)
<b>Topic:</b>	<b>Possible amendments to AASB 1060 and other Standards following amendments to full IFRS Standards</b>	<b>Agenda Item:</b>	15.2
		<b>Date of Agenda Paper</b>	7 June 2021
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Initial deliberations

## OBJECTIVE OF THIS PAPER

1. In Agenda Paper 15.1 staff recommend proposed amendments to the principles in the [AASB For-Profit Entity Standard-Setting Framework](#) (the FP SSF) and the [AASB Not-For-Profit Entity Standard-Setting Framework](#) (the NFP SSF). The objective of this paper is for the Board to consider the application of those revised principles, subject to Board decisions in Agenda Paper 15.1, to amendments recently made by the IASB to IFRS Standards reflected in the Australian-equivalent amending Standard [AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates](#).

## REASONS FOR BRINGING THIS PAPER TO THE BOARD

2. Recently, the IASB made amendments to two IFRS Standards (IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments do not affect recognition and measurement requirements. The amendments to IAS 1 affect only disclosure requirements and the amendments to IAS 8 affect definitions. The amendments are effective from 1 January 2023.
3. In Australia, the amendments were made in AASB 2021-2 and apply to entities preparing Tier 1 general purpose financial statements<sup>1</sup>. Staff are aware of at least one jurisdiction in the public sector preparing Tier 2 general purpose financial statements that would like to early adopt the amendments if the amendments are also made to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, when the entity transitions to AASB 1060 on 1 July 2021 (the mandatory transition date).
4. In Agenda Paper 15.1, staff recommended amending both the Standard-Setting Frameworks (SSFs) to clarify the principles for considering amendments to AASB 1060 to help ensure consistent application when disclosure-only amendments are made.

<sup>1</sup> AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that 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 – Simplified Disclosures (for annual periods beginning on or after 1 July 2021).

5. This paper considers the application of the draft principles to the amendments made in AASB 2021-2, subject to Board decisions made in Agenda Paper 15.1.

## ATTACHMENTS

Agenda paper 15.5 *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* [supporting material folder]

Agenda paper 15.6 *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* [supporting material folder]

## STRUCTURE

6. This Staff Paper is set out as follows:
  - (a) Background (paragraphs 7 to 9)
  - (b) Application of the draft principles (paragraphs 10 to 17)
  - (c) Other considerations (paragraphs 18 to 26)
  - (d) Suggested next steps and timeline (paragraphs 27 to 28)

## BACKGROUND

7. AASB 1060 is a separate disclosure standard applied by all entities reporting under Tier 2 of the Reporting Framework in AASB 1053. AASB 1060 replaces the current Reduced Disclosure Requirements (RDR) framework for annual periods beginning on or after 1 July 2021.
8. AASB 1060 disclosure requirements are determined using a ‘bottom-up’ approach, starting with the disclosures in the IASB’s *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs Standard). As outlined in both SSFs, this is based on the premise that:
  - (a) the disclosures in the IFRS for SMEs Standard should be retained where the recognition and measurement requirements and options are the same or similar in the IFRS for SMEs Standard and full IFRS Standards (and therefore Tier 1);
  - (b) where recognition and measurement requirements or options in the IFRS for SMEs Standard are not available in full IFRS Standards (and therefore Tier 1), the related disclosures will be removed; and
  - (c) where the recognition and measurement principles in full IFRS Standards (and therefore Tier 1) are significantly different from those in the IFRS for SMEs Standard or certain topics are not addressed in the IFRS for SMEs Standard, disclosures may be added.
9. Based on the principles in paragraph 8 above, both Standard-Setting Frameworks (SSFs) outline the Board’s approach when considering whether to add to or amend disclosure requirements in AASB 1060 for amendments made to full IFRS Standards. Subject to Board member agreement with the staff recommendations in Agenda Paper 15.1, the Board’s [draft] approach is:
  - (a) if the amendments introduce significant recognition and measurement differences between full IFRS Standards and the IFRS for SMEs Standard, apply the principles applied by the IASB in developing the IFRS for SMEs Standard, which are based on the view that users of financial statements of for-profit entities that are not publicly accountable are particularly interested in certain information<sup>2</sup>; and

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<sup>2</sup> Paragraph 53 of the FP SSF and paragraph 40 of the NFP SSF outline that this is information about short-term cash flows and obligations, commitments or contingencies, whether or not recognised as liabilities, liquidity and solvency, measurement uncertainties, accounting policy choices and disaggregations of amounts presented in the financial statements.

- (b) if the amendments do not introduce significant recognition and measurement differences, no further action is required unless:
  - (i) the disclosures address a matter of public policy;
  - (ii) the disclosures are of particular relevance in the Australian environment; or
  - (iii) the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.

#### **APPLICATION OF THE DRAFT PRINCIPLES**

- 10. As noted in paragraph 2 above, the AASB recently issued AASB 2021-2. This amending Standard reflects the amendments in two recently issued IASB amending Standards (*Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* and *Definition of Accounting Estimates (Amendments to IAS 8)*).
- 11. Staff applied the [draft] principles recommended in Agenda Paper 15.1 (and summarised in paragraph 9(b) above) to the amendments made by AASB 2021-2 in paragraph 14 below. As two IASB amending Standard were combined in AASB 2021-2, staff has considered the amendments in two parts for clarity.

#### **Part 1: Accounting policy related amendments**

- 12. The IASB made amendments to IAS 1, IFRS 7 *Financial Instruments: Disclosures*, IAS 34 *Interim Financial Reporting* and IFRS Practice Statement 2 *Making Materiality Judgements* following feedback from stakeholders that suggested the IASB develop requirements and guidance to help entities make more effective accounting policy disclosures. Prior to the amendments, as IAS 1 required entities to disclose their significant accounting policies, there were differences in stakeholder views about what constitutes a significant accounting policy.
- 13. The IASB found that, because 'significant' is not defined in IFRS Standards, entities had difficulty assessing whether/when an accounting policy is 'significant.' The IASB also noted that entities could have difficulty understanding the difference, if any, between 'significant' and 'material' accounting policies. While the IASB considered developing a definition of 'significant,' it concluded that this approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards. Therefore, because 'material' is defined in IFRS Standards and is well understood by stakeholders, the IASB decided to require entities to disclose material accounting policy information instead of significant accounting policies.

14. Staff considered each of the accounting policy related amendments made by AASB 2021-2 to determine whether/how they applied to AASB 1060 and whether AASB 1060 should be updated.

Amendment made by AASB 2021-2	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation:
AASB 101.7 <sup>3</sup>	A new definition (accounting policies) is added.	AASB 1060, Appendix A	Update AASB 1060 Appendix A. Appendix A contained all the defined terms included in AASB 101.7 prior to this amendment. As an additional definition (accounting policies) has been added to AASB 101.7, it should also be added to AASB 1060.
AASB 101.10(e)  AASB 101.114(c)(ii)  AASB 101.117 (and heading)	These paragraphs are updated for terminology (i.e., to require/refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies).	AASB 1060.25(e)  AASB 1060.93(c)(ii)  AASB 1060.95 (and heading)	Update AASB 1060.  If the equivalent paragraphs in AASB 1060 are not updated, preparers may interpret and apply the requirements of AASB 1060 differently from AASB 101.

<sup>3</sup> While AASB 101 does not apply to entities that comply with AASB 1060, AASB 1060 includes certain equivalent disclosure requirements using the same terminology and phrasing.

Amendment made by AASB 2021-2	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation:
AASB 101.117A	“Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.”	N/A	Add these paragraphs to AASB 1060.
AASB 101.117B	<p>“Accounting policy information is expected to be material if users of an entity’s financial statements would need it to understand other material information in the financial statements. For example, an entity is likely to consider accounting policy information material to its financial statements if that information relates to material transactions, other events or conditions and:</p> <ul style="list-style-type: none"> <li>(a) the entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;</li> <li>(b) the entity chose the accounting policy from one or more options permitted by Australian Accounting Standards—such a situation could arise if the entity chose to measure investment property at historical cost rather than fair value;</li> <li>(c) the accounting policy was developed in accordance with AASB 108 in the absence of an Australian Accounting Standard that specifically applies;</li> <li>(d) the accounting policy relates to an area for which an entity is required to make significant judgements or assumptions in applying an accounting policy, and the entity discloses those judgements or assumptions in accordance with paragraphs 122 and 125; or</li> </ul> <p>the accounting required for them is complex and users of the entity’s financial statements would otherwise not understand those material transactions, other events or conditions—such a situation could arise if an entity applies more than one Australian Accounting Standard to a class of material transactions.”</p>	N/A	<p>Broadly, these paragraphs were added to AASB 101 to assist an entity in determining whether accounting policy information is material to its financial statements and to respond to specific feedback received by the IASB from stakeholders.</p> <p>As the new paragraphs are intended to assist entities with determining whether accounting policy information is material to their financial statements, staff expect this guidance to be useful for entities preparing Tier 2 financial statements.</p> <p>In recommending these paragraphs be added to AASB 1060, staff did consider whether it was preferable to include a cross-reference from AASB 1060 to AASB 101. Staff note that AASB 1060 typically includes cross-references to other Standards which contain guidance (e.g., paragraph 157(b) requires disclosure of the amount of each category of revenue recognised during the period, disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This requirement is cross-referenced to AASB 15 <i>Revenue from Contracts with Customers</i> to</p>
AASB 101.117C	(e) “Accounting policy information that focuses on how an entity has applied the requirements of the Australian Accounting Standards to its own circumstances provides	N/A	

Amendment made by AASB 2021-2	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation:
AASB 101.117D  AASB 101.117E	<p>entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the Standards.”</p> <p>“If an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.”</p> <p>“An entity’s conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Australian Accounting Standards.”</p>	N/A  N/A	<p>assist entities with selecting the categories to use to disaggregate their revenue).</p> <p>However, as AASB 101 does not apply to entities applying AASB 1060, staff suggest a cross-reference to AASB 101 would be unhelpful to users of AASB 1060, so it is preferable to add the requirements directly to AASB 1060.</p>
AASB 101.118  AASB 101.119  AASB 101.121	These paragraphs in AASB 101 are deleted.	N/A	No action is required because AASB 1060 does not contain equivalent requirements.
AASB 101.122	This paragraph was updated for terminology (i.e., to require/refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies).	AASB 1060.96	<p>Update AASB 1060.</p> <p>If the equivalent paragraph in AASB 1060 is not updated, preparers may interpret and apply the requirements of AASB 1060 differently from AASB 101.</p>
AASB 139V	Transition and effective date	N/A	<p>No action is required.</p> <p>Paragraph 139V is a signpost paragraph added to AASB 101 as an equivalent paragraph was added to IAS 1. Paragraph 139V outlines the paragraphs amended by the amending Standard and their application date. Signpost paragraphs are not included in domestic Australian Accounting Standards</p>

Amendment made by AASB 2021-2	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation:
			because this information is included in the compilation details of compiled Standards.
AASB 7.21 <sup>4</sup>	This paragraph was updated for terminology (i.e., to require/refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies).	AASB 1060.112	Update AASB 1060. If the equivalent paragraph in AASB 1060 is not updated, preparers may interpret and apply the requirements of AASB 1060 differently from AASB 7.
AASB 7.B5	This paragraph was updated for terminology (i.e., to require/refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies).	N/A	No action is required because AASB 1060 does not contain an equivalent requirement.
AASB 7.44II	Transition and effective date	N/A	No action is required. Paragraph 44II is a signpost paragraph added to AASB 7 as an equivalent paragraph was added to IFRS 7. Paragraph 44II outlines the paragraphs amended by the amending Standard and their application date. Signpost paragraphs are not included in domestic Australian Accounting Standards because this information is included in the compilation details of compiled Standards.

<sup>4</sup> While AASB 7 does not apply to entities that comply with AASB 1060, AASB 1060 does include certain equivalent disclosure requirements.

Amendment made by AASB 2021-2	Description/requirement	Corresponding paragraph in AASB 1060	Staff recommendation:
AASB 134	AASB 134 was updated for terminology to identify material accounting policy information as a component of a complete set of financial statements.	N/A	<p>No action is required.</p> <p>AASB 134 is applicable for the specific purpose of preparing interim reports, and AASB 1060 is intended to be used in the preparation of annual general purpose financial statements. Therefore AASB 1060 does not include any requirements equivalent to those in AASB 134.</p>
AASB Practice Statement 2	AASB Practice Statement 2 was updated for terminology/guidance on applying the concept of materiality to accounting policy disclosures.	N/A	<p>No action is required.</p> <p>AASB Practice Statement 2 provides non-mandatory guidance to all entities preparing general purpose financial statements on making materiality judgments when preparing general purpose financial statements in accordance with Australian Accounting Standards. Therefore, AASB 1060 does not include any requirements equivalent to those in AASB Practice Statement 2.</p>

**Question 1 to Board members:**

Subject to any Board decisions in Agenda Paper 15.1, do Board members agree with the staff recommendation in paragraph 14:

- (a) to amend paragraphs 25(e), 93(c)(ii), 95 (and preceding heading), 96, 112 and Appendix A of AASB 1060?
- (b) to add paragraphs equivalent to AASB 101 paragraphs 117A-117E to AASB 1060?
- (c) that in relation to the accounting policy related amendments made in AASB 2021-2, no other amendments are required to AASB 1060?

If not, what do Board members suggest?



## **Part 2: Accounting estimates related amendments**

15. The IASB made amendments to IAS 8 following feedback from the IFRS Interpretations Committee about difficulties entities faced in distinguishing changes in accounting policies from changes in accounting estimates. The IASB understood that such difficulties arose because the previous definition of a change in accounting estimate in IAS 8 was not sufficiently clear.
16. Broadly, IAS 8 (AASB 108) was amended to introduce a new definition of 'accounting estimates' and clarify how entities should distinguish changes in accounting policies, changes in accounting estimates and the correction of errors.
17. While the amendments made to AASB 108 are useful clarifications, the amended paragraphs in AASB 108 already apply to entities complying with AASB 1060. For this reason, no amendments to AASB 1060 are required, and staff recommend no action is required in relation to the accounting estimates related amendments.

### **Question 2 to Board members:**

Do Board members agree with the staff recommendation in paragraph 17 that no action is required in relation to the accounting estimate related amendments made in AASB 2021-2? If not, what amendments would Board members suggest?

### **OTHER CONSIDERATIONS**

#### *Cross-references to the IFRS for SMEs Standard*

18. Presently, AASB 1060 includes cross-references to the equivalent IFRS for SMEs Standard paragraphs. If AASB 1060 is amended as recommended in paragraph 14 above, these cross-references will also require amendment because the IASB has not updated the corresponding IFRS for SMEs paragraphs at this time.
19. Staff note there are many instances in AASB 1060 where requirements are cross-references as 'based on *IFRS for SMEs Standard* paragraph X.' This approach is currently adopted for paragraphs where the content in AASB 1060 is similar, but not the same as the IFRS for SMEs Standard (e.g., paragraphs 9, 10 and 13 of AASB 1060).
20. Therefore, staff recommend that if amendments to AASB 1060 are made (see paragraph 14 above) the accompanying cross-references should also be amended to reflect that the content is now 'based on *IFRS for SMEs Standard* paragraph X.'

### **Question 3 to Board members:**

Do Board members agree with the staff recommendation in paragraph 20 that if amendments to AASB 1060 are made (see Question 1 to the Board), the accompanying cross-references should also be amended to reflect that the content is now based on the IFRS for SMEs Standard? If not, what do Board members suggest?

#### *Other Standards requiring amendment*

21. Staff are aware of at least one other domestic Standard that contains references to 'significant accounting policies' where this terminology is used in the context of AASB 101.<sup>5</sup>
22. Staff have not yet reviewed all domestic Standards to identify any other instances that may require updating. However, staff will review all domestic Standards to ensure such references are identified, and staff recommend that they are also updated where necessary.

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<sup>5</sup> For example, Paragraphs 9B, IG1 and IG5 of AASB 1054 *Australian Additional Disclosures*.

**Question 4 to Board members:**

Do Board members agree with the staff recommendation in paragraph 22 that AASB 1054 and any other domestic Standards identified should also be amended to reflect the updated terminology (i.e., to require/refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies)? If not, what do Board members suggest?

*Due process*

23. Subject to Board member agreement with the staff recommendations in questions 1, 3 and 4, staff recommend the issue of an Exposure Draft.
24. Paragraph 6.5 of the *AASB Due Process Framework for Setting Standards* outlines that an Exposure Draft is generally issued with a 90-day comment period to ensure appropriate consultation. However, if it is narrow in scope and urgent, a comment period of no less 30 days may be suitable.
25. Staff understand that there might be no changes in practice to financial statement disclosures as a result of these amendments if the existing requirements were applied as intended. However, staff expect that the amended terminology and updated guidance will be helpful for preparers as they transition to AASB 1060 and reconsider their disclosures.
26. Staff, therefore, recommend a 60-day comment period. Staff consider 60-days is reasonable because:
- while staff do not expect the proposed amendments to AASB 1060 to be contentious due to their narrow scope, a 60-day comment period would allow stakeholders sufficient time to comment. Staff note that that July-October is typically a busy period for preparers and practitioners and 60-days balances the demands on their time with the timeline for future Board meetings;
  - while staff are only aware of one jurisdiction that intends to adopt the possible amendments early, staff can see merit in the amendments being available for all entities to early adopt at the same time they mandatorily transition to AASB 1060 (i.e., for annual periods beginning on or after 1 July 2021) should they elect to. This may include for-profit private sector entities transitioning from special purpose financial statements and for-profit and not-for-profit entities transitioning from the existing Tier 2 Reduced Disclosure Requirements framework. A 60-day comment period would allow the Board to finalise an amending Standard by the end of the 2021 calendar year. Staff understand that this would be helpful for the jurisdiction that have expressed a desire to early adopt the possible amendments as it would enable them to update template financial statements and undertake preparer education promptly.

**Question 5 to Board members:**

Subject to Board member agreement with the staff recommendations in question 1, 3 and 4, do Board members agree with the staff recommendation in paragraphs 23 and 26 to issue an Exposure Draft with a 60-day comment period? If not, what do Board members suggest?

**SUGGESTED NEXT STEPS AND TIMELINE**

27. Subject to the Board member agreement with staff recommendations in Agenda Paper 15.1 and throughout this paper, staff suggest the following timeline.

Task	Timing
Incorporating any feedback received from Board members at this meeting: <ul style="list-style-type: none"> <li>Staff will update and finalise both revised SSFs (see Agenda Paper 15.1)</li> <li>Staff will prepare a ballot draft Exposure Draft (for approval via the Chair)</li> </ul>	June/July 2021
Exposure Draft to be issued.	No later than 5 August 2021

Task	Timing
Comments on the Exposure Draft due (60-day comment period).	4 October 2021
Staff to analyse any feedback received and discuss with the Board at the <b>November</b> AASB meeting.	October/November 2021
Staff to finalise and issue the Amending Standard after incorporating any feedback from Stakeholders and Board members at the November AASB meeting.	November/December 2021

28. Staff note, however, that if the Board decides that it is appropriate to provide the FRC with the opportunity to comment on both SSFs (see Agenda Paper 15.1) and/or that a comment period of longer than 60-days is needed (see Question 5), the proposed timeline will require adjustment and an amending Standard is unlikely to be issued before the end of the 2021 calendar year.

**Question 6 to Board members:**

- (a) Subject to Board member agreement with the staff recommendations in question 5, do Board members agree with the staff recommendation to finalise an Exposure Draft via the Chair? If not, would Board members prefer to finalise via a sub-committee?
- (b) Subject to Board member agreement with staff recommendations in Agenda Paper 15.1 and throughout this paper, do Board members have any comments on the suggested next steps and timeline?