



Project:	Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and other Australian Accounting Standards	Meeting:	November 2021 (M184)
Topic:	Analysis of submissions on ED 312 and staff recommendations	Date of this paper:	26 October 2021
		Agenda Item:	16.1
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		Decision-Making:	High
		Project Status:	Consider feedback on ED and next steps

Objective of this paper

- The objective of this agenda item is:
 - to **inform** the Board of feedback received on [AASB Exposure Draft ED 312 Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards](#);
 - to **provide** staff analysis and recommendations on the issues raised by stakeholders; and
 - for the Board to **consider** a pre-ballot version of AASB 2021-X *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*.

Attachments

- Agenda Paper 16.2 Pre-ballot Draft: AASB 2021-X *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*
- Agenda Paper 16.3 Submissions received on ED 312 [supporting documents folder]
- Agenda Paper 16.4 For noting: ED 312 [supporting documents folder]

Structure

- This paper is structured as follows:
 - Background (paragraphs 3 – 10);
 - List of respondents to ED 312;
 - High-level summary of feedback from respondents (paragraphs 11 – 13);
 - Part A – Editorial suggestions (paragraphs 14 – 15);
 - Part B – Other feedback (paragraphs 16 – 39); and
 - Next Steps (paragraphs 40).

Background

- In early 2021, the IASB issued two amending Standards that are effective from 1 January 2023.

- 4 The first Standard amended IAS 1 *Presentation of Financial Statements*, 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 (accounting policy-related amendments).
- 5 The second Standard amended IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* 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 (accounting estimates-related amendments).
- 6 In Australia, the equivalent amendments were made in [AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates](#) and principally affect the disclosures requirements and guidance in some Tier 1 Australian Accounting Standards.¹
- 7 Following the issue of AASB 2021-2, at the June 2021 meeting, the Board considered whether similar amendments were required to some domestic Australian Accounting Standards, including the Tier 2 Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to ensure consistency in the terminology used across Australian Accounting Standards.
- 8 In August 2021, ED 312 was issued. The ED proposed amendments to AASB 1060, AASB 1054 *Australian Additional Disclosures* and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to require entities to disclose material accounting policy information rather than significant accounting policies.
- 9 ED 312 did not propose any accounting estimates-related amendments, as amended AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraphs already apply to entities complying with AASB 1060 (see paragraph 5 above).
- 10 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 proposals in ED 312 when they transition to AASB 1060.

List of respondents to ED 312

Category	Respondent
2 Professional Services firms (PS)	Deloitte
	Ernst & Young (EY) (feedback via verbal discussion with staff)
1 Professional Body (PB)	Chartered Accountants Australia & New Zealand/CPA Australia
1 Public Sector Preparer (PSP)	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

High-level summary of feedback from respondents

- 11 All **four** respondents to ED 312 were **supportive** of the proposed amendments.
- 12 **Two** respondents (HoTARAC and EY) provided some editorial suggestions considered in Part A – Editorial suggestions of this paper.
- 13 **Two** respondents (Deloitte and EY) provided other feedback suggesting that the Board:
 - (a) develop principles to balance the inclusion of guidance paragraphs in AASB 1060 (EY);

¹ 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).

- (b) consider whether specific accounting policy disclosure requirements in AASB 1060 are required, and if so, whether they should be amended to make clear that the disclosure of accounting policies is only required where they are material (EY);
- (c) consider whether AASB 1039 *Concise Financial Statements* should be amended to explicitly require the disclosure of material accounting policy information (Deloitte); and
- (d) consider the effect that the proposals in IASB ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (ED/2021/7) might have on AASB 1060 (Deloitte).

This feedback is considered in Part B – Other feedback of this paper.

Part A – Editorial suggestions

- 14 HoTARAC suggested additional amendments to AASB 1049 to align the language used in relation to accounting policy information throughout AASB 1049 and other Australian Accounting Standards. Staff agree with this suggestion and have marked up these changes in Agenda Paper 16.2 (see note to Board members 1 and 2).
- 15 EY suggested an amendment to proposed paragraph 95E of AASB 1060, in recognition of AASB 1060 being a stand-alone disclosure Standard. If paragraph 95E is retained (see paragraphs 16–24 for discussion about whether paragraph 95E should be retained), staff agree with this suggestion and have marked up this change in Agenda Paper 16.2 (see note to Board members 4 part B).

Questions for Board members

- Q1 Do Board members agree with the staff recommendation in paragraph 14 to update AASB 1049 as marked up in Agenda Paper 16.2? If not, what do Board members suggest?
- Q2 Do Board members agree with the staff recommendation in paragraph 15 to update paragraph 95E (if retained) as marked up in Agenda Paper 16.2? If not, what do Board members suggest?

Part B – Other feedback

Principles for the inclusion of guidance paragraphs in AASB 1060

- 16 ED 312 proposed adding paragraphs 95A–95E to AASB 1060. These paragraphs were added to AASB 101 *Presentation of Financial Statements* to assist an entity in determining whether accounting policy information is material to its financial statements and responding to specific feedback received by the IASB from stakeholders. As the new paragraphs are intended to assist entities with determining whether accounting policy information is material to their financial statements, this guidance was expected to be useful for entities preparing Tier 2 financial statements. Therefore, it was included in ED 312.
- 17 However, feedback from EY suggested that, although the guidance might be helpful to users, guidance paragraphs were not originally included in AASB 1060. Therefore, it may be necessary for the Board to:
 - (a) reconsider whether any guidance paragraphs in other Standards should also be included in AASB 1060 for consistency;
 - (b) consider whether the inclusion of paragraphs 95A–95E in AASB 1060 creates an expectation that guidance paragraphs would be added to AASB 1060 routinely in the future; and
 - (c) reconsider whether, if proposed paragraphs 95A–95E are to be added to AASB 1060, all of the proposed guidance paragraphs are necessary.
- 18 The feedback did not directly object to the content of the paragraphs. However, it was suggested that principles to help the Board consistently include or exclude future guidance paragraphs may be beneficial.

Staff analysis and recommendation:

- 19 Staff note that, when developing AASB 1060, the Board decided to replace any Standards that dealt exclusively with presentation and disclosure requirements in their entirety with the corresponding requirements in AASB 1060.²
- 20 In developing AASB 1060, the Board noted that replacing certain Standards with sections in AASB 1060 also removed some of the guidance included in those standards, where such guidance was also not included in the *IFRS for SMEs* Standard.³ However, for the sake of maintaining the simplicity of the disclosure requirements, the Board considered this to be preferable to considering on a case-by-case basis which guidance should be included and which could be omitted.⁴ The Board also included AASB 1060 paragraph 2, which specifically permits entities to refer to other Standards (including AASB 101) for guidance on requirements in AASB 1060.⁵
- 21 In contemplating whether to retain proposed paragraphs 95A–95E, staff were unable to follow the IASB approach in the *IFRS for SMEs* Standard, as it was last updated in 2015. Staff were also unable to follow the approach adopted by the IASB in the recently issued Exposure Draft ED/2021/7.⁶
- 22 Staff agree that if the Board included the proposed guidance paragraphs in AASB 1060, it would be necessary to develop principles to support consistent decision making about when to include or omit guidance paragraphs now and in the future. However, staff consider this approach (of deciding whether to include or omit guidance paragraphs on a case-by-case basis) to be somewhat inconsistent with the Board’s previous decision to omit guidance paragraphs unless they were also included in the *IFRS for SMEs* Standard. However, staff do acknowledge it is not possible to follow the IASB’s approach in this case, as noted in paragraph 21 above.
- 23 On balance, staff consider that including the proposed guidance paragraphs in AASB 1060 is not necessary. Staff acknowledge that AASB 1060 paragraph 2 permits entities to refer to AASB 101 (and other Standards) for guidance.
- 24 Staff have deleted these paragraphs as marked up in Agenda Paper 16.2.

Questions for Board members

- Q3 Do Board members agree with the staff recommendation in paragraph 23 that proposed paragraphs 95A–95E should not be added to AASB 1060? If not, what do Board members suggest?

Amendments to AASB 1060 to clarify specific accounting policy disclosure requirements

- 25 In addition to the general requirement to disclose accounting policy information in AASB 1060 paragraph 95, in some cases, AASB 1060 also requires disclosure of accounting policies about specific transactions or balances. For example, paragraphs 125 and 129 state that an entity shall disclose “its accounting policy for investments in associates” and “the accounting policy it uses

² AASB 1060 paragraph BC54.

³ AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101, AASB 107 *Statement of Cash Flows* and AASB 124 *Related Party Disclosures*

⁴ AASB 1060 paragraph BC55.

⁵ AASB 1060 paragraph 2 states “Except to the extent specifically addressed in this Standard, the definitions and presentation requirements of other Australian Accounting Standards continue to apply. Entities are permitted to refer to other Standards for guidance on the requirements in this Standard, including AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 124 *Related Party Disclosures*.”

⁶ Although ED/2021/7 contains disclosure requirements based on the *IFRS for SMEs* Standard, ED/2021/7 is not a stand-alone Standard. That is, unless a paragraph from a full IFRS Standard is listed in Appendix A of the ED, the paragraph continues to apply. Therefore, while ED/2021/7 does not include guidance paragraphs consistent with proposed paragraphs 95A–95E, that is not because they do not apply, it is because entities are to refer instead to IAS 1 for the guidance.

for recognising its interests in joint ventures.” Paragraph 160(d) also requires disclosure of “the accounting policy adopted for government grants.”

- 26 It is acknowledged that the requirements of AASB 1060 and Australian Accounting Standards, more broadly, apply based on materiality. That is, Australian Accounting Standards may include a requirement to disclose certain information. However, if that information is not material, it is not required to be disclosed. EY was concerned that a less knowledgeable user of AASB 1060 may not be aware of this and may disclose accounting policy information where there is a specific requirement to do so, even if the information is not material to the financial statements.
- 27 AASB 1060 paragraph 23 confirms the application of the materiality concept stating, “This Standard specifies information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure if the information resulting from that disclosure is not material. This is the case even if this Standard contains a list of specific requirements or describes them as minimum requirements.”
- 28 Accordingly, if, for example, an entity’s accounting policy for associates, joint ventures or government grants is not material, it is not required to be disclosed, notwithstanding the specific disclosure requirements in AASB 1060.
- 29 EY suggested the Board consider whether the AASB 1060 paragraphs requiring accounting policy disclosures for specific balances or transactions are necessary, as disclosure of this information is already required by AASB 1060 paragraph 95. If however, the specific accounting policy disclosure requirements are retained, EY suggested clarifying that they apply subject to materiality. This clarification could be achieved by cross-referencing the specific accounting policy disclosure requirements to paragraph 95, which confirms the application of materiality, as has been done in paragraph 112 (e.g., “In accordance with paragraph 95, its accounting policy for ...”).

Staff analysis and recommendation:

- 30 Staff identified seven paragraphs in AASB 1060 that require disclosure of specific accounting policies.⁷ The drafting of the identified paragraphs in AASB 1060 is consistent with the *IFRS for SMEs Standard* (i.e., paragraph 112 relating to financial instruments links to general accounting policy disclosure paragraph 95 and other paragraphs (i.e., paragraphs 123, 125, 129, 160, 163 and 221) do not have this same linkage).
- 31 Although staff can see merit in either deleting the specific accounting policy disclosure requirements in paragraphs 123, 125, 129, 160, 163 and 221 or clarifying that they apply subject to materiality, on balance staff consider such an amendment is not necessary. In particular, staff note that the inclusion of the specific accounting policy requirements in AASB 1060 and their drafting is consistent with the approach adopted in the *IFRS for SMEs Standard*. Further, AASB 1060 paragraph 23⁸ explicitly states that the requirements of AASB 1060 apply subject to materiality.

Questions for Board members

- Q4 Do Board members agree with the staff recommendation in paragraph 31 that it is not necessary to delete or amend paragraphs 123, 125, 129, 160, 163 and 221 of AASB 1060? If not, what do Board members suggest?

AASB 1039

⁷ Paragraph 112 (Financial Instruments), paragraph 123 (Inventories), paragraph 125 (Associates), paragraph 129 (Joint Ventures), paragraph 160 (Government Grants), paragraph 163 (Borrowing Costs) and paragraph 221 (Land under Roads).

⁸ “This Standard specifies information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure if the information resulting from that disclosure is not material. This is the case even if this Standard contains a list of specific requirements or describes them as minimum requirements.” AASB 1060 paragraph 23.

- 32 The objective of AASB 1039 is to specify the minimum content of a concise financial report. Deloitte’s feedback suggests that, in developing the requirements for disclosing material accounting policy information, the IASB (and AASB) has focused on information that may be crucial to understanding an entity’s general purpose financial statements. Accordingly, such information may also be essential to understanding an entity’s condensed [concise] financial statements. It may also help readers of the concise financial report identify when it would be useful to obtain more comprehensive and detailed information from an entity by requesting a copy of the full financial report.
- 33 The feedback recommends that the AASB consider adding a requirement to AASB 1039 to require the disclosure of material accounting policy information. Without an explicit requirement, preparers and users of a concise financial report may be unclear when such information should be included.

Staff analysis and recommendation:

- 34 Staff consider that whether or not a requirement to disclose accounting policy information should be added to AASB 1039 is beyond this project's scope. This project considered whether amendments to existing accounting policy disclosure requirements in domestic Standards were required, rather than whether new accounting policy disclosure requirements should be added. Therefore, staff do not recommend any changes to the draft amending Standard in Agenda Paper 16.2.
- 35 However, as such an amendment may be helpful for preparers and users, it may warrant further consideration. A suitable time to consider this feedback might be during a post-implementation review (PIR); however, staff note that the Board recently considered a plan for the PIRs of many domestic Australian Accounting Standards and decided that a PIR of AASB 1039 was not required at this time. When the Board made this decision, it was noted that AASB 1039 was issued many years ago, and the Board had only recently reviewed the requirements of GPFS reporting for for-profit private sector entities reporting under the *Corporations Act 2001*. In addition, concise financial reports are not expected to apply to NFP private and public sector entities.
- 36 As such, staff see merit in undertaking targeted outreach to obtain more information about this possible issue and whether adding an explicit requirement to AASB 1039 to require the disclosure of material accounting policy information is warranted. Outreach would also include understanding how often concise financial reports are prepared and the effect the disclosure of accounting policies, or lack thereof, may have on the usefulness of concise financial reports. This information would then inform decisions about the need for any possible standard-setting.

Questions for Board members

- Q5 Do Board members agree with the staff recommendation in paragraph 36 that there is merit in undertaking targeted outreach before making decisions about possible standard-setting in relation to AASB 1039? If not, what do Board members suggest?

Interaction with ED/2021/7

- 37 The proposals in ED/2021/7 would permit eligible subsidiaries to apply reduced disclosure requirements in conjunction with the recognition, measurement and presentation requirements in IFRS Standards. The proposals are similar to AASB 1060, and AASB 1060 may be replaced by the Standard developed by the IASB as part of the consultation process.
- 38 Deloitte’s feedback gave importance to aligning AASB 1060 with any Standard developed by the IASB. The feedback also acknowledged some differences in disclosure requirements between AASB 1060 and the IASB’s proposals affected by ED 312. For example, ED/2021/7 proposes requiring compliance with all disclosure requirements in IAS 8 in addition to the disclosure of material accounting policy information under IAS 1. In contrast, under AASB 1060, the disclosure requirements of AASB 108 do not apply to Tier 2 entities.

Staff analysis and recommendation:

- 39 Staff acknowledge this feedback. However, as this issue is beyond this project's scope, staff do not recommend any changes to the draft amending Standard in Agenda Paper 16.2. The effects of the IASB's proposals on AASB 1060 will be considered as part of a separate project.

Questions for Board members

- Q6 Do Board members agree with the staff recommendation in paragraph 39 that no changes to the draft amending Standard in Agenda Paper 16.2 are required and that the effects of ED/2021/7 will be considered as part of a separate project? If not, what do Board members suggest?

Next Steps

- 40 Subject to Board member agreement with the staff recommendations in this paper, staff suggest the following timeline:

Staff to finalise ballot draft of the amending Standard, incorporating any feedback received at the November AASB meeting.	Week commencing 15 November
Staff to circulate ballot draft of the amending Standard for out-of-session voting (two-week voting period).	Week commencing 22 November
Comments on the ballot draft of the amending Standard are due.	6 December
Staff to finalise and issue the amending Standard.	Week commencing 13 December

Questions for Board members

- Q7 Do Board members have any comments on the suggested next steps and timeline?