



# For Profit Phase 2: Adopt RCF and remove SPFS for certain for-profit private sector entities

## Project summary

The AASB issued amending Standard [AASB 2020-2](#) which removes the ability for certain for-profit private sector entities to prepare SPFS. AASB 2020-2 is effective for annual period beginning on or after 1 July 2021, with earlier application permitted.

To reduce the burden on entities no longer able to prepare SPFS, a revised Tier 2 general purpose financial statements framework, Simplified Disclosures (AASB 1060) will replace the current Reduced Disclosures Requirements framework. [AASB 1060](#) also applies to those entities currently preparing generally purpose financial statements (GPFS) in accordance with the RDR framework including not-for-profit entities in both the public and private sectors. Click [here](#) to access the project summary for this project.

As there are some for-profit private sector entities that can continue to prepare SPFS, the Board decided to require them to include disclosures in their financial statements that inform users of the basis upon which they were prepared. Entities that can continue to prepare SPFS are those required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards (AAS). Where such entities prepare SPFS, they will disclose information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in AAS. These proposals were originally outlined in [ED 302](#), with some changes.

## Background

The objective of this project was to apply the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) in Australia and improve the consistency, comparability, transparency and enforceability of financial reports prepared in accordance with AAS.

The aim of this project was to:

- (a) replace the existing *AASB Framework for the Preparation and Presentation of Financial Statements* with the RCF;
- (b) update other AAS for consequential changes that arise from the RCF; and
- (c) solve the reporting entity concept and special purpose financial statement (SPFS) problems.

The AASB released [ITC 39](#) in May 2018 which highlighted the issues that would arise for Australian entities when the RCF is applied in Australia.

## Project contact

Kimberley Carney  
Senior Manager  
[kcarney@asb.gov.au](mailto:kcarney@asb.gov.au)

Helena Simkova  
Deputy Technical  
Director  
[hsimkova@asb.gov.au](mailto:hsimkova@asb.gov.au)

**Project priority: High**

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

## Project summary

The AASB suggested two-phased approach resulting in the removal of the ability to prepare SPFS for certain for-profit private sector entities required by legislation or otherwise to prepare financial statements in accordance with AAS, or in some cases accounting standards.

After considering the feedback received on ITC 39 and the findings of research activities, the AASB issued [ED 297 Removal of SPFS for certain For-Profit Entities](#). After considering the feedback received on ED 297 the AASB issued AASB 2020-2.

### Issued Documents

- [Exposure Draft](#) (ED 302)
- [Amending Standard](#) (AASB 2020-2)
- [Exposure Draft](#) (ED 297)
- [Consultation Paper](#) (ITC 39)

### AASB Outreach

- Webinar – [slide pack](#) & [recording](#) [November 2019]
- Roundtables – [slide pack](#) & [summary](#) [November 2019]
- [AASB Staff Paper: Results from User and Preparer Surveys](#)
- Briefings – [slide pack](#) & [summary](#) [May 2018]
- Webinar – [slide pack](#) & [recording](#) [June 2018]
- Roundtables – [slide pack](#) & [summary](#) [September 2018]
- [ITC 39 Phase 2 Submissions](#)

### Project status

- Implementation support

### Board deliberations

- [Staff paper and pre-ballot draft of amending Standard](#)
- [Staff paper and pre-ballot draft of Exposure Draft](#) [November 2019]
- [Staff paper: Phase 2 Submissions](#) [February 2019]

### AASB Communications

[AASB Submission to Treasury on Reducing the financial reporting burden by increasing the thresholds for large proprietary companies](#)

### Other

- Removal of SPFS and the introduction of AASB 1060 webinars:
  - Part 1: [recording](#) and [slides](#)
  - Part 2: [recording](#) and [slides](#)
  - Part 3: [recording](#) and [slides](#)
- [Key facts](#) [March 2020]
- [Key facts](#) [November 2019]
- [AASB Research Report No. 13](#)
- [AASB Research Report No. 12](#)
- [Podcast](#) [June 2018]
- [AASB Research Report No. 1](#)
- [AASB Research Report No. 7](#)
- [Hot Topic – Conceptual Framework](#) [May 2018]
- [7 Key Facts Sheet](#) [May 2018]
- [AASB Staff FAQ](#) [June 2018]

## Latest project news

| Date                | News  |
|---------------------|---|
| 23-24 February 2022 | <a href="#">AASB Action Alert</a> [Issue No: 212] |
| 11-12 November 2020 | <a href="#">AASB Action Alert</a> [Issue No: 205] |
| 30 April 2020       | <a href="#">AASB Action Alert</a> [Issue No: 202] |
| 5-6 March 2020      | <a href="#">AASB Action Alert</a> [Issue No: 201] |
| 22 November 2019    | <a href="#">AASB Action Alert</a> [Issue No: 200] |
| 26 September 2019   | <a href="#">AASB Action Alert</a> [Issue No: 199] |
| 17 June 2019        | <a href="#">AASB Action Alert</a> [Issue No: 198] |
| 2 May 2019          | <a href="#">AASB Action Alert</a> (Issue No: 197) |

|                         |  |
|-------------------------|--|
| <b>21 February 2019</b> | <a href="#">AASB Action Alert (Issue No: 196)</a>                            |
| <b>14 November 2018</b> | <a href="#">AASB Action Alert (Issue No: 195)</a>                            |
| <b>13 November 2018</b> | Roundtables <a href="#">slide pack</a> and <a href="#">summary</a> available |
| <b>5 September 2018</b> | <a href="#">AASB Action Alert (Issue No: 194)</a>                            |

## AASB Action Alert Update and Board Papers

| Meeting Date         | Update  |
|----------------------|---|
| <b>February 2022</b> | <p><b>Accounting Policy Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities</b></p> <p>The Board confirmed its previous decision to proceed with the proposals in ED 302 <i>Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities</i> with some changes.</p> <p>The amendments to AASB 1054 <i>Australian Additional Disclosures</i> and AASB 1057 <i>Application of Australian Accounting Standards</i> are relevant to for-profit private sector entities that are required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards.</p> <p>When such entities prepare special purpose financial statements (SPFS) that refer to Australian Accounting Standards, the amendments will require the financial statements to include disclosures that inform users of the basis upon which they were prepared. This includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in Australian Accounting Standards.</p> <p>An amending Standard, with an effective date of annual periods ending on or after 30 June 2022, is expected to be issued in May 2022</p> |
| <b>November 2020</b> | <p><b>Minimum Disclosures in SPFS of Certain For-Profit Private Sector Entities</b></p> <p>The Board decided it will proceed with the proposals in ED 302 <i>Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities</i>, with some changes. The amendments will require certain for-profit private sector entities that prepare special purpose financial statements (SPFS) to disclose information about the accounting policies applied in those SPFS, along with information about the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards. The Board reiterated that the purpose of the amendments is to ensure the basis of preparation is clear where an entity asserts compliance with Australian Accounting Standards in its SPFS.</p> <p>In finalising its views, the Board decided to:</p> <ul style="list-style-type: none"> <li>• delay the effective date of the final amendments to apply to reporting periods beginning on or after 1 July 2021, with early adoption permitted;</li> <li>• in doing so, exclude entities within the scope of AASB 2020-2 <i>Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities</i>. Entities within the scope of AASB 2020-2 are for-profit private sector entities that are required by legislation to prepare financial statements</li> </ul>                    |

that comply with either Australian Accounting Standards or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards (provided that document was created or last amended on or after 1 July 2021); and

- require entities to comply with the disclosure requirements in paragraphs 8 and 9 of AASB 1054 Australian Additional Disclosures (i.e. disclosure of an entity's reporting framework and whether the statements are General Purpose Financial Statements or SPFS).

An amending Standard is expected to be issued in December 2020.

**April 2020**

### **Minimum Disclosures for SPFS Referring to Australian Accounting Standards for For-Profit Private Sector Entities**

The Board confirmed its proposals to amend AASB 1054 *Australian Additional Disclosures* to require certain for-profit private sector entities that continue to be able to prepare special purpose financial statements (SPFS) to disclose information about the accounting policies applied in those SPFS along with information about the extent of compliance or otherwise with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS). This includes:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either AAS or accounting standards. The ability of these entities to prepare SPFS is temporary as these entities will be required to prepare general purpose financial statements for annual periods beginning on or after 1 July 2021, in accordance with AASB 2020-2; and
- (b) 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. The ability of these entities to prepare SPFS is limited to circumstances where the constituting or other document requiring compliance with AAS was created or last amended before 1 July 2021.

### **Background**

In March 2020, the Board issued *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* which limits the preparation of financial statements that comply with AAS by for-profit private sector entities to:

- (a) entities whose constituting document (or another document), requiring them to comply with Australian Accounting Standards, was created or last amended before 1 July 2021; and
- (b) entities with a legislative requirement to prepare financial statements that comply with Australian Accounting Standards or accounting standards, for financial statements for periods beginning prior to 1 July 2021, if they elect not to early adopt the requirements in AASB 2020-2.

Accordingly, there is likely to be a number of entities that will continue to be able to prepare special purpose financial statements and state that their special purpose financial statements have been prepared in compliance with Australian Accounting Standards for a long period of time. The Board also considered a number of other reasons why these disclosures are necessary (see also [Additional disclosures for for-profit SPFS](#) below). Without a clear explanation of what compliance with AAS means, there is a significant risk of users being misled regarding the basis of preparation of SPFS.

This was previously considered by the Board via ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*. However, when finalising the proposals in ED 293, their application was limited to not-for-profit entities. This decision was made subject to finalising AASB 2020-2, and in doing so was reconsidered by the Board.

#### **Proposed requirements**

The Board decided to issue an Exposure Draft proposing that those entities in (a) and (b) above would be required to disclose:

- (a) the basis on which the decision to prepare SPFS was made;
- (b) information about the material accounting policies applied in the special purpose financial statements, including information about any changes in those accounting policies;
- (c) where the entity has interests in other entities – 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 would disclose that fact, and the reasons why;
- (d) 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) – an indication of how it does not comply; and
- (e) 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).

The proposed amendments are expected to apply to annual periods ending on or after 30 June 2021. Early voluntary disclosure is encouraged.

The Exposure Draft is expected to be issued shortly with a comment period of 90 days.

**March 2020**

#### **Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities**

The following for-profit private sector entities will no longer be able to prepare Special purpose financial statements (SPFS) for reporting periods beginning on or after 1 July 2021:

- entities preparing financial statements under Part 2M.3 of the *Corporations Act 2001* including large proprietary (including grandfathered entities), unlisted public (other than companies limited by guarantee), small foreign-controlled companies, financial services licensees and small proprietary companies with crowd-sourced funding;
- co-operatives and mutuals and others required by legislation to prepare financial statements that comply with either Australian Accounting Standards (AAS) or accounting standards (AS);
- trusts, partnerships and joint arrangements whose constituting document or another document requires the preparation of financial statements that comply with AAS if the relevant document was created or amended in any way on or after 1 July 2021;
- other for-profit entities (both private and public sector) that elect to prepare GPFS.

A revised Tier 2 general purpose financial statements (GPFS) framework, Australian Accounting Standards – Simplified Disclosures (SDS), will replace the current Reduced Disclosures Requirements framework (RDR) with the same effective date. Affected entities no longer able to prepare SPFS and those not-for-profit entities in both the private and public sector currently preparing GPFS in accordance with the RDR framework will transition to SDS. Transitional relief from restating comparative information is available only if an entity chooses to apply the requirements early. Not-for-profit entities that prepare SPFS are not affected, but their continued ability to prepare SPFS will be considered as part of the forthcoming Australian Financial Reporting Framework project for not-for-profit private sector entities.

Entities not required by legislation, constituting or other documents or for-profit public sector entities, which voluntarily prepare GPFS will be required to apply the revised *Conceptual Framework for Financial Reporting*.

The Board issued both Standards, *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, on its website in March 2020. Educational material will also follow.

#### **Additional disclosures for for-profit SPFS**

As a consequence of the deferral of the effective date, the Board decided that for-profit private sector entities that prepare SPFS at 30 June 2021 (e.g. those transitioning to GPFS and trusts that have not amended their trust deed after 1 July 2021) will be required to make disclosures about their compliance with the R&M requirements in AAS, including consolidation and equity accounting, as proposed by *ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*. The Board will consider this further in subsequent meetings as part of a separate sub-project.

#### **Feedback on ED 297**

Based on the feedback received the Board decided on the following changes in *AASB 2020-2 from ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*:

- to defer the effective date to annual reporting periods beginning on or after 1 July 2021, with transitional relief from restating comparative information available only to entities which elect to early adopt;
- extend transitional relief for early adoption to entities that have previously prepared SPFS and complied with all recognition and measurement (R&M) requirements. Such entities do not need to present comparative information for those disclosures that they had not previously made;
- entities applying the transitional relief for early adoption shall disclose the comparative period statement of financial position unadjusted as per their latest SPFS (consistent with presentation of the statement of profit or loss, other primary financial statements and the notes); and
- entities applying the transitional relief for early adoption are required to disclose a reconciliation of equity from the latest SPFS to the adjusted opening balances.

In addition, the Board decided to not require an entity to distinguish the correction of prior period errors from changes in accounting policies in the year of transition as a practical

expedient to achieve consistent, comparable, transparent and enforceable financial reporting in a timely manner.

**3.1** Staff Paper: Initial summary responses to ED 297 & 295

**3.2** [Pre-Ballot Draft] AASB 2020-X *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

## **November 2019 ED 297 Removal of SPFS for Certain For-Profit Entities – Feedback**

The Board noted approximately 90% of participants supported the proposals and the effective date of 30 June 2020 in ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. The majority of the participants in the roundtables and webinar held to date also agreed with the proposed scope and the scope exemption for entities with non-legislative requirements to prepare financial statements.

The following views were expressed by multiple participants:

- the transitional relief from restating the comparative information should apply to all entities, whether or not the current SPFS comply with the recognition and measurement requirements of Australian Accounting Standards;
- due to software capabilities, the statement of financial position in the year of transition should include the closing balances and the comparative unadjusted balances as disclosed in the most recent SPFS. The adjusted opening balances would be disclosed in the notes;
- the need to educate both accountants and lawyers that any change in the constituting document of an entity with non-legislative requirements may trigger a change in financial reporting requirements; and
- mixed views in respect of whether Australian Financial Services Licensees and grandfathered entities should be in the scope of the Standard.

The proposals in the ED and the feedback will be further considered by the Board at the next meeting.

**10.1** Staff paper – summary of feedback from roundtables on ED 297

## **September 2019 AASB 1054 – Disclosure of Compliance with Recognition and Measurement in SPFS**

The Board decided additional disclosure of information about compliance with the recognition and measurement requirements in Australian Accounting Standards will not apply to for-profit private sector entities preparing SPFS, unless the proposals in ED 297 to prohibit SPFS are not finalised. The Board acknowledged stakeholder feedback that the amendments would only be relevant to these entities for a short period of time if the proposals in ED 297 are finalised as expected by 30 June 2020 and costs are likely to outweigh benefits.

**18.1** Staff Paper: AASB 1054 - Disclosure of Compliance with R&M in SPFS

## **June 2019 AASB 1054 – Disclosure of Compliance with Recognition and Measurement in SPFS**

The Board confirmed its proposals to require for-profit entities lodging with ASIC and not-for-profit (NFP) entities lodging with the ACNC that prepare special purpose financial statements (SPFS) to disclose information about their compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

The Board decided that such entities should disclose:

- (a) the basis on which the decision was made to prepare SPFS;
- (b) whether the entity has investments in subsidiaries, associates or joint ventures and whether they have been consolidated or equity accounted as appropriate, in accordance with AAS, and an explanation of why not complied with. If the entity is a NFP entity, and hasn't undertaken this assessment, it shall instead disclose this fact; and
- (c) an explicit statement that the accounting policies applied in the financial statements do or do not comply with all the recognition and measurement requirements in AAS, and if not, an indication of where they do not comply.

The Exposure Draft will also include implementation guidance and illustrative examples to help preparers understand the nature of the information that is to be disclosed. The required disclosures are not expected to be onerous – the extent of any non-compliance does not need to be quantified.

The proposed amendments are expected to apply to annual periods ending on or after 30 June 2020. Early voluntary disclosure is encouraged.

The Exposure Draft is expected to be issued in July with a comment period of 45 days.

## **12.0** Cover Memo

### **12.1** [Pre Ballot Draft] Exposure Draft 2019-XX *Amendments to Australian Accounting Standards – Disclosure of Compliance with Recognition and Measurement Requirements*

## **Removal of SPFS for FP Entities – Phase 2 ED**

The Board decided to propose that the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) and the removal of the ability for for-profit private sector entities to prepare SPFS would apply to:

- (a) for profit-private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards;
- (b) other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (including for-profit public sector entities) that elect to prepare general purpose financial statements.

The Board decided to provide an exemption to for-profit private sector entities such as trusts, partnerships, certain joint arrangements and self-managed superannuation funds, that have constituting documents as well as documents such as lending agreements, that require compliance with 'Australian Accounting Standards' in specifying financial reporting requirements because:

- (a) their financial statements are prepared for specific users (e.g. a trustee), and those users have the ability to command whatever information they require from the entity;
- (b) the financial statements are not lodged on the public record; and
- (c) it may be costly for entities to change their constituting document or other document where GPFS are not sought by the financial statement users.

The Board noted that if such documents are amended on or after 1 July 2020 the financial reporting requirements could be amended at that time, so the exemption will no longer apply in these circumstances.

The proposed transitional relief for entities transitioning from SPFS to GPFS-Tier 2 not fully applying the applicable recognition and measurement requirements of Australian Accounting Standards (AAS) or the requirements for consolidated financial statements in AASB 10 *Consolidated Financial Statements* (if relevant) include:

- (a) amending AASB 1053 *Application of Tiers of Australian Accounting Standards* to clarify that such an entity should be able to apply either:
  - (i) all relevant requirements of AASB 1 *First-time Adoption of Australian Accounting Standards*; or
  - (ii) Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (b) amending AASB 1 to present two statements of financial position in accordance with AAS at the beginning and end of the first AAS reporting period, rather than restating the comparative periods; and
- (c) a range of disclosures, including the SPFS statement of financial position and statement of profit or loss and other comprehensive income and a description of the main adjustments in transitioning from SPFS to Tier 2 GPFS. The Board expects that the ED will be issued in August and will be open for comment until mid-November 2019.

#### **4.0** Cover Memo: Removal of SPFS for FP entities - Phase 2 ED

#### **4.1** [Pre Ballot Draft] ED XXX Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements under Standards for For-Profit Entities

## **April 2019**

### **AASB 1054 – Disclosure of Compliance with R&M in SPFS**

The Board decided to issue an Exposure Draft proposing for-profit entities and not-for-profit (NFP) entities within the scope of AASB 1054 *Australian Additional Disclosures* that prepare special purpose financial statements (SPFS) disclose:

- whether they have subsidiaries and prepared consolidated financial statements, and if not consolidated, why not;
- if they have investments in an associate or a joint venture, whether they have been accounted for in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*;
- whether the entity has or has not complied with all recognition and measurement (R&M) requirements of Australian Accounting Standards (AAS) in preparing the SPFS; and

- if the entity did not comply with all of the R&M requirements, sufficient information so that the users of the SPFS clearly understand the accounting policies.

The entities affected are those:

- lodging financial reports with ASIC (under Chapter 2M.3 of the *Corporations Act 2001*); or
- required by the *Australian Charities and Not-for-profits Commission Regulation 2013* or other legislation to comply with AASB 1054.

The Board noted that this proposal would not require entities to change their accounting policies, but to simply state whether or not their policies comply with all the recognition and measurement requirements in AAS. Based on the evidence that users for SPFSs exist, feedback from those users (particularly regarding the importance of comparability) and academic research findings, the Board considered this interim measure – until the broader project on removing SPFS for for-profit entities is completed – is urgently needed to provide more transparency to SPFS users of publicly lodged financial statements.

Given the Board’s concerns, and evidence regarding inappropriate application of the reporting entity concept, the Board was not persuaded the users of publicly lodged SPFS could demand any information they need. Research into the reporting practices of for-profit entities preparing SPFS shows that for 14% a user could not clearly identify whether recognition and measurement requirements had or had not been complied with.

The Exposure Draft is expected to be issued in June with a comment period of 45 days. The Board intends to issue the final Standard before the end of December 2019. However, given the clear stakeholder expectations of trust and transparency from directors, the Board encourages early voluntary disclosure for 30 June year-end financial statements.

#### **4.1 AASB 1054 - Disclosure of Compliance with R&M in SPFS**

#### **Removal of SPFS for FP Entities – Transitional Relief and Timelines**

The Board decided to propose an amendment to AASB 1 *First-Time Adoption of Australian Accounting Standards* so that, in the first annual reporting period after the amendments to remove the ability to prepare SPFS in accordance with AAS become effective, an entity preparing general purpose financial statements (GPFS) under Tier 2 requirements for the first time need not restate its comparative information. This amendment would be applicable regardless of whether an entity had a legislative or other requirement to comply with AAS in prior periods. Instead of full comparative information, the amendment to AASB 1 would require entities adopting this option to provide the following information in addition to the other requirements of AASB 1 for Tier 2 entities:

- (a) present two statements of financial position in accordance with AAS as at:
  - (i) the beginning of the reporting period; and
  - (ii) the reporting date;
- (b) disclose its last SPFS statement of financial position as at the comparative period reporting date in the notes, with a description of the adjustments made for the statement of financial position at the beginning of the reporting period to be AAS compliant;
- (c) present two statements of profit or loss and other comprehensive income as follows:
  - (i) for the reporting period in accordance with AAS; and

- (ii) for the comparative period, but as presented in its last SPFS (ie not necessarily AAS compliant), but labelled clearly where the information is not AAS compliant. The Board noted that comparative information in the statement of profit of loss is of particular interest to users and decided that requiring some previous SPFS information would provide a pragmatic approach to providing comparative information and facilitating transition in a timely manner; and
- (d) disclose in the notes a description of the adjustments that would have been required to make the comparative SPFS statement of profit or loss and other comprehensive income noted in (c)(ii) compliant with AAS (similar to the requirement of AASB 1, paragraph 22).

The Board noted that relief from the restatement of comparative information would be beneficial as it would reduce costs to preparers whilst also allowing an earlier effective date of the amending Standard than if comparative information were required, ultimately providing a consistent, comparable, enforceable and transparent reporting framework earlier. As such, the Board decided that the Exposure Draft will propose an effective date of annual periods beginning on or after 1 July 2020. Earlier application would be permitted and encouraged.

The Board considered other options for transitional relief, including allowing entities that are subsidiaries to recognise amounts based on information provided in reporting packs to their parent entity for consolidation purposes, and allowing entities to immediately write off 'deemed goodwill' calculated in accordance with AASB 1 Appendix C. The Board also observed that the primary concerns raised by constituents were related to consolidation and equity accounting, and noted that the findings from the research addressing compliance with R&M of ASIC-lodging entities found that 6% of entities did not apply all R&M only due to not applying AASB 112 *Income Taxes* fully (although the Board also noted that feedback to ITC 39 had not raised AASB 112 as being problematic for transition purposes).

However, the Board considered there was insufficient compelling reasons or evidence to warrant any transitional relief for these other options, particularly noting that:

- (a) the revision by Treasury of the thresholds for distinguishing large and small proprietary companies has reduced the population of large proprietary companies by approximately 2,797 (around a third of the original population), leaving approximately 3,986 of more economically significant companies as large proprietary companies. The Board also noted the Explanatory Statement accompanying the revision of the thresholds outlined the expectation that more economically significant entities are expected to have users that are dependent on the entity's GPFS, and also that the average access rates of the remaining population is significantly higher than those entities that would now be small proprietary companies rather than large proprietary companies;
- (b) the Board had not received feedback that the population of small foreign-controlled companies or unlisted public companies warranted transitional relief in addition to that provided in AASB 1; and
- (c) the Board has performed extensive outreach and asked for specific information on transitional relief that might be needed via formal comments on ITC 39, roundtables in capital cities and over 150 meetings with individual entities, and has not received any compelling evidence or suggestions identifying specific issues that need transitional relief in addition to that provided in AASB 1 or to be proposed in the ED.

*Timelines*

The Board tentatively decided the following comment periods for the upcoming Exposure Drafts (ED):

- (a) for the ED proposing to remove the ability for entities to prepare SPFS in accordance with AAS – a comment period of 90 days. In making this consideration, the Board noted that the proposals would not be significantly different to those already considered by constituents in ITC 39, and hence an extended comment period did not appear to be needed; and
- (b) for the ED proposing to revise the Tier 2 reduced disclosure framework – a comment period of 120 days.

**3.0** AASB Research Report update - Financial Reporting Practices of For-profit non-disclosing entities lodging SPFS

**5.1** Timeline

**6.1** Transitional relief approach A: Provide no additional relief

**6.2** Transitional relief approach B1: 'Push-down' accounting

**6.3** Transitional relief approach B2: relief from comparatives

**6.4** Transitional relief approach B3: option to write off deemed goodwill

## February 2019

The Board decided to proceed with proposals to remove the ability of for-profit private sector entities to publicly lodge special purpose financial statements (SPFS) after considering:

- responses from financial statement users, preparers and other stakeholders during the public consultation period, including over 160 targeted discussions;
- the findings in AASB Research Reports and commissioned academic research;
- the results of user and preparer surveys; and
- feedback from regulators.

The accumulated body of evidence indicates there are significant numbers of users of all publicly lodged financial statements and there was widespread acknowledgement, particularly from users, that the current financial reporting framework does not provide consistent, comparable and transparent financial statements. Enforceability was also noted as a key issue. The Board noted the Banking Royal Commission findings highlighted the importance of removing exceptions in legislation and that removing the SPFS self-assessment option would remove an exception and would bring Australia into line with the rest of the world.

Accordingly, the Board determined the following:

- (a) the desired outcome to address the SPFS issue should be a consistent, comparable, transparent and enforceable financial reporting framework for all for-profit private sector entities (within the scope of the Phase 2 proposals) that have a statutory requirement to prepare financial statements that comply with Australian Accounting Standards (AAS) or accounting standards. To achieve this, the Board decided it is necessary to propose in relation to for-profit private sector entities:
  - (i) amendments to AAS to remove the ability for such entities to self-assess their reporting entity status and prepare SPFS; and
  - (ii) all such entities to prepare some form of general purpose financial statements (GPFS);

- (b) the forthcoming Exposure Draft will propose only one Tier 2 GPFS framework, given the small number of entities required to publicly lodge financial statements – currently 12,800 (which is less than 2% of trading entities). The ED will propose replacing the existing Tier 2 GPFS Reduced Disclosure Requirements (RDR) framework with a framework that would still require compliance with all recognition and measurement (R&M) requirements in AAS – including consolidation and equity accounting.

In making this decision, the Board noted the strong preference expressed by the majority of respondents for a framework that includes full R&M in AAS on the grounds that it would enhance the comparability, consistency and transparency of the financial statements. Such a framework would also minimise the costs associated with the transition from SPFS to Tier 2 GPFS for the majority of preparers that, based on feedback received from various forums and the preliminary findings of the AASB's research into the level of compliance with R&M of ASIC regulated entities, are already complying with R&M in AAS (in accordance with ASIC Regulatory Guide RG85). The Board noted that 3,000 small foreign-controlled entities already apply either the full R&M requirements in AAS for consolidation by a parent entity or US GAAP, and that large proprietary companies that are consolidated into AASB Tier 1 entities already apply the full R&M requirements.

The Board noted that a minority of respondents had asked the Board to consider IFRS for SMEs as an option or alternative for Tier 2 GPFS. However, the Board noted that these respondents did not provide any new arguments as to whether IFRS for SMEs would be preferable to full R&M as an alternative Tier 2 GPFS. The Board also noted that IFRS for SMEs includes requirements for consolidated financial statements, deferred tax accounting, financial instruments accounting and related party disclosures that are not substantively different to full IFRS R&M requirements. For these reasons, the Board decided not to propose a Tier 2 GPFS framework with differential R&M requirements;

- (a) further research and outreach is required before determining what additional transitional relief might be required to ensure the transition from SPFS to Tier 2 GPFS is not unduly burdensome. This work should give particular consideration to the preparation of consolidated financial statements and the application of equity accounting for the first time, whether comparative information is required in the year of transition, and additional ongoing compliance costs;
- (b) to undertake further research to assess whether it is appropriate to provide grandfathering relief for entities with a non-legislative requirement to prepare financial statements in accordance with AAS, such as a requirement in their trust deed or other compliance document. The Board will consider the number of entities that may be affected and whether it is possible to develop objective criteria related to economic significance for distinguishing those entities that should be required to comply with AAS;
- (c) finalise the research into current compliance with R&M requirements to assist in determining the cost/benefit of the final proposals; and
- (d) the forthcoming Phase 2 ED will be accompanied by a formal Feedback Statement. The Feedback Statement will include details of the research and outreach activities that have been conducted throughout the standard-setting process in order to demonstrate compliance with the AASB's For-Profit Entity Standard-Setting Framework.

The Board will continue to consult with a wide range of stakeholders in drafting the proposals to be included in the Phase 2 ED. The Board reconfirmed its decision that it is appropriate to progress the for-profit project in advance of the NFP project to improve the financial

reporting framework. The Board noted that the for-profit sector entities publicly lodging financial statements have greater levels of economic significance, size and resources, and proportionately are a significantly smaller number (less than 2% of trading entities), compared to approximately 33% of charities preparing financial statements. The Board also noted that the Banking Royal Commission findings, various Senate enquiries on tax avoidance, the existing RG85 guidelines and the preliminary findings of the academic research on compliance with R&M requirements clearly indicate that existing disclosure practices are extremely confusing for users, and with the effective date of the IASB Conceptual Framework, it is imperative to progress the for-profit project.

#### **4.1** Staff Paper: Phase 2 submissions

**November 2018** The Board noted feedback received during the Board's September roundtables on enhancing financial reporting and replacing special purpose financial statements for for-profit entities.

**4.3** For noting: ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

**9.0** Cover Memo – ITC 39 Phase 2 – Summary of Feedback received from Phase 2 Outreach in September

**September 2018** The Board decided that the most appropriate way to facilitate the Board's two-phase approach to applying the IASB's *Conceptual Framework for Financial Reporting (RCF)* as proposed in ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* would be:

- (a) to have two conceptual frameworks until Phase 2 of the project is completed
- (b) to have one set of Australian Accounting Standards, including Interpretations (AAS).

**4.2.1** Full written submission received from the Australian Banking Association on ITC 39

**4.2.2** Full written submission received from the Australian Securitisation Forum on ITC 39

**4.3** For noting: ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

**June 2018** The Board decided to issue a high-level summary of its recent briefing sessions on the Consultation Paper.

Outreach is continuing, with the Board particularly interested in stakeholders' views on what transitional relief might be helpful and the potential implementation costs where entities are affected.

**May 2018** The Board approved to issue its Consultation Paper.

The Consultation Paper explains the AASB's objective to make the RCF applicable in Australia, describes a two-phase approach to solving the following two problems, and presents five

options considered by the Board for addressing the two problems.

- February 2018** The Board decided that the Consultation Paper should further emphasise the background and objective of the project, the core problems it is trying to solve and the need for the AASB's action. The Board also highlighted the need to explain the considered options and the project's timeline for consultation on these issues.
- 4.0** Cover Memo – Conceptual Framework Project
  - 4.1** Ballot Draft of AASB Consultation Paper *Conceptual Framework for Financial Reporting – Application of the IASB's Revised Conceptual Framework in Australia*
  - 4.2** Proposed project timeline and Conceptual Framework Project Advisory Panel
- December 2017** The Board noted major issues that Australian entities will face when the IASB's revised *Conceptual Framework for Financial Reporting* (RCF) is issued. The Board considered staff's proposals and directed staff to draft a consultation paper to be issued at the beginning of 2018.
- 10.1** Staff Paper – Implications of the forthcoming IASB Conceptual Framework
- May 2017** The Board considered an updated project plan. In particular, staff will work in conjunction with other key regulatory bodies and stakeholders to determine user needs for information and to consider the costs and benefits of the financial reporting requirements for all Australian entities. Extensive research work, including comparing the existing reporting requirements with other jurisdictions, and consultation activities are underway to better understand and assess the criteria for determining (a) which entities are required to prepare general purpose financial reports and (b) the reporting requirements applicable to entities.
- 7.1** Staff Paper: Australian Financial Reporting Framework
- June 2016** Staff outlined the continuing development of benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will provide a basis for further consultation with regulators and other stakeholders. No decisions were made.
- 7.0** Cover memo – Australian Financial Reporting Framework
  - 7.2** Updated project plan
- April 2016** Staff outlined the continuing work to develop benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will support further consultation with regulators and other stakeholders. No decisions were made.
- December 2015** The Board received an update on the project addressing the Australian financial reporting framework in terms of which entities should prepare and lodge general purpose financial statements and the content of such financial statements. No decisions were made.
- 7.1** Staff Paper – Financial Reporting Framework

## **May 2015**

The Board supported the project to reconsider the Australian financial reporting framework in terms of which entities should prepare financial statements and the content of those financial statements. The overall aim of the project is to clarify and simplify the financial reporting framework, so that objective criteria determine the entities required to prepare general purpose financial statements. The project will cover both corporate and non-corporate entities, in conjunction with government policymakers and regulators.

The Board noted the project plan, which encompasses the work to reconsider the reduced disclosure requirements for Tier 2 entities (see separate item) and raises the possibility of a third tier of reporting requirements.

**11.1** Memorandum – Financial Reporting Framework

**11.2** Project Plan