



Project:	Not-for-Profit Private Sector Financial Reporting Framework	Meeting:	208
Topic:	Tier 3 – alternative approach for notable relationships, transitional provisions and staff analysis of impracticability exemption	Agenda Item:	3.3
		Date:	20 August 2024
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		Decision-Making:	High
		Project Status:	Developing Exposure Draft

The objective of this paper

1. The objective of this paper is for the Board to consider and decide on alternative drafting and substantial issues regarding the following topics in the Tier 3 ED:
 - (a) Section 8: *Consolidated and Separate Financial Statements*, including notable relationship disclosures (see paragraphs 2 – 6);
 - (b) the ‘Impracticability’ exemption from modified retrospective application of changes in accounting policies and corrections of prior period errors in Section 9 *Accounting Policies, Estimates and Errors* (see paragraphs 7 – 17); and
 - (c) Section 29: *Transition to General Purpose Financial Statements: Not-for-Profit Private Sector Tier 3 Entities* (see paragraphs 18 – 34).

Consolidated and separate financial statements

2. At the March 2024 Board meeting, staff presented the drafting of Section 8: *Consolidated and Separate Financial Statements* for Board consideration. At that meeting, a Board member considered more linking is needed between the disclosures for notable relationships with the related party disclosure in Section 28 *Related Party Disclosures*. Staff have now reassessed the section and have included in Agenda Paper 3.2 for this meeting with cross-referencing in paragraphs 8.26e) and 8.31(e) to improve linkage between the two sections.
3. However, upon reviewing the drafting of Section 8 and considering the feedback above, staff now present an alternative version of the draft suggesting a separate subsection on the guidance relating to the notion of notable relationships and related disclosure requirements. The main changes (as shown in manual markups in Appendix A) in the alternative drafting are:
 - (a) changing the title of Section 8 to reference notable relationships;

- (b) rearranging the content of the notable relationships text from paragraphs 8.28 – 8.31 in Agenda Paper 3.2 at this meeting to the beginning of Section 8;
 - (c) including the measurement requirements for notable relationship entities within the subsection; and
 - (d) removing notable relationship references from the subsections on consolidated and separate financial statements (Appendix A).
4. Staff identified the following arguments for and against the alternative approach:

Arguments supporting the alternative approach:

- (a) the definition and related disclosures are unique to the Tier 3 Standard and warrant their own subsection;
- (b) staff consider the readability of the section would also improve since entities are required to first determine whether they have a notable relationship which, as defined in the draft para. 8.1 in Appendix A, encompasses a subsidiary, an associate, joint ventures and joint operations. Staff also think the readability of the requirements would improve for entities that can identify their subsidiaries, associates or joint ventures – they would then apply the subsection for consolidated and separate financial statements. In contrast, paragraphs 8.34 – 8.35 in Agenda Paper 3.2 for this meeting (the draft Exposure Draft) specifying the requirement for separate financial statements include guidance for entities that have not identified whether their notable relationship entity is a subsidiary, an associate or a joint venture;
- (c) it would better cater to smaller not-for-profit entities unable to assess whether they are parent entities that control one or more subsidiaries, as they would be first considering the guidance under this new section about notable relationships only, without needing to consider the full guidance in the section on consolidated financial statements that may be not applicable to their circumstances.

Arguments against the alternative approach:

- (d) it might deter entities from presenting consolidated financial statements if the guidance on notable relationships would precede the guidance regarding consolidated financial statements.
5. Staff recommend the alternative approach as reflected in Appendix A below because it would improve the readability of the Tier 3 reporting requirements regarding notable relationships, consolidated and separate financial statements for the reasons in paragraphs 4(a) – 4(c) above. If the Board agrees with the staff recommendation, in the finalisation of the ED (subject to the Board’s decision in that regard), staff will replace Section 8 as presented in Agenda Paper 3.2 for this meeting with the alternative draft below.
6. Staff noted that there may be some duplication with the definition of ‘related party’ in the glossary, which was presented to the Board at the March 2024 meeting and remained unchanged in Agenda Paper 3.2. However, staff have not made changes to the definition so that related party disclosure requirements remain consistent with Tier 2 requirements as per the Board’s decision at its November 2023 Board meeting (see [meeting minutes](#)). Staff have implied that this would also mean the definition of related party should remain consistent. As noted in [Agenda Paper 5.2](#) at the November 2023 meeting, there are already some NFP private sector entities (i.e. ACNC registered charities) required to comply with AASB 124 *Related Party Disclosures* as part of their regulatory requirement and would already be familiar with the current related party definition.

Question 1 to Board members

Do Board members agree with the staff recommendation in paragraph 5 to replace Section 8 as presented in Agenda Paper 3.2 with the alternative drafting in Appendix A below?

If not, do Board members agree that Section 8 as currently presented in Agenda Paper 3.2 including the cross-referencing to Section 28 as noted in paragraph 2 provides sufficient linkage between the two Sections?

If not, what do Board members suggest?

'Impracticability' exemption from modified retrospective application of changes in accounting policies and corrections of prior period errors

7. As noted in the Note to Board members preceding Section 9 *Accounting Policies, Estimates and Errors* of the draft Tier 3 ED (Agenda Paper 3.2, page 41) for consideration at the Board's September 2024 meeting, staff asked Subcommittee members whether they agreed with omitting any 'impracticability' exemptions from the common requirements of the IFRS for SMEs Accounting Standard and AASB 108 (recognition)/AASB 1060 (disclosures), as adapted from applying a 'modified retrospective approach' to changes in accounting policies and corrections of prior period errors. Staff considered that not having to restate comparative information presented for prior periods should largely negate any need for 'impracticability' exemptions and related explanations, and Subcommittee members agreed.
8. The originally recommended Tier 3 'modified retrospective application' requirements:
 - (a) exempt an entity from restating comparative information presented for prior periods as if the new accounting policy had always been applied or the prior period error had not occurred; and
 - (b) require the opening balances of assets, liabilities and items of equity for the current period in which the new accounting policy is first applied or the error is corrected to be restated from the closing balances of the most recent prior period as if the new accounting policy had always been applied or the prior period error had not occurred, without any exemption for 'impracticability'.
9. The main reasons for recommending not to include an 'impracticability' exemption from restating the opening balances of assets, liabilities and items of equity for the current period (presented in Agenda Paper 3.5 at this meeting), with which the Subcommittee agreed, are that:
 - (a) it reflects the Board's preliminary view in Table 6.3 of the [Tier 3 DP](#) (on page 94) that the proposed simplification for Tier 3 entities for the treatment of changes in accounting policies (i.e. to require a modified retrospective approach) "is similar to the impracticability exception from restating comparatives in AASB 108", which implies an explicit impracticability exception would be redundant (since it is implicitly covered by the proposed simplification);
 - (b) modified retrospective application of the changes/corrections avoids having to restate each line item for each prior period presented; arguably, this cost saving should outweigh the additional cost of not having an 'impracticability' exemption from restating opening balances for the current period; and
 - (c) in contrast with larger entities with complex transactions or long operating cycles (e.g. long periods to self-construct assets or contracts with customers involving multiple deliverables over multiple periods) or for-profit entities using discounted cash flow

analyses to estimate the fair values of assets under the income approach, for smaller NFP entities, arguably impracticability of adjustments to opening balances for the current period should arise relatively infrequently.

These reasons were specific to applying a modified retrospective approach to changes in accounting policies and corrections of prior period errors, and do not affect other references to impracticability in the Tier 3 ED (see para. 14).

10. However, in the process of detailed drafting of transitional requirements for Section 29 *Transition to General Purpose Financial Statements: Not-for-Profit Private Sector Tier 3 Entities* of the Tier 3 ED, which interacts with draft Section 9, staff noted a potential risk that some Tier 3 NFP entities might find the omitting an ‘impracticability’ exemption from modified retrospective application results in more onerous requirements for such changes/corrections than those applying to Tier 1 or Tier 2 entities. This is because, regarding impracticability, AASB 108 states the following similar exemption for changes in accounting policies and corrections of prior period errors:

Changes in accounting policies

“When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.” (para. 25);

“When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 25, applies the new policy prospectively from the start of the earliest period practicable. **It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date.** Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period.” (para. 27, emphasis added)

Corrections of prior period errors

“When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.” (para. 45)

“When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 45, restates the comparative information prospectively from the earliest date practicable. **It therefore disregards the portion of the cumulative restatement of assets, liabilities and equity arising before that date.** Paragraphs 50–53 provide guidance on when it is impracticable to correct an error for one or more prior periods.” (para. 47, emphasis added)

11. Therefore, for example, an entity retrospectively applying a new accounting policy or correcting an error under the Tier 1/Tier 2 requirements of AASB 108 might in some circumstances disregard the portion of the cumulative restatement of assets, liabilities and equity arising before a particular date, which might even be the beginning of the current period. In contrast, a Tier 3 entity in the same circumstances (although spared the requirement to restate comparative information) might need to perform a cumulative catch-up adjustment for the effects of applying a new accounting policy or correcting an error since inception of an asset or liability.

12. Para. 25 and 45 of AASB 108 were omitted from the IFRS for SMEs ED (possibly due to overarching “undue cost or effort” principle used in that Standard), and therefore not considered as closely as they were subsequently when considering drafting Section 29 of the Tier 3 ED in light of its interaction with draft Section 9.
13. On balance, staff consider that, despite the arguments noted in para. 9, providing an ‘impracticability’ exemption from modified retrospective application of changes in accounting policies and corrections of prior period errors is warranted and recommend it to be added in Section 9 because of the potential risk that the Tier 3 Standard otherwise results in more onerous requirements than those applying to Tier 1 or Tier 2 entities.
14. ‘Impracticability’ exemptions are proposed in a small number of instances in the draft Tier 3 ED. Specifically, in that draft:
 - (a) para. 2.11 states that: “When the presentation or classification of items in the financial statements is changed, an entity shall reclassify comparative amounts unless the reclassification is impracticable.”;
 - (b) para. 8.11 states that: “The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date unless it is impracticable to do so.”;
 - (c) para. 13.16(f) states that: “In applying the equity method, the investor shall use the financial statements of the investee as of the same date as the financial statements of the investor unless doing so is impracticable.”; and
 - (d) para. 13.16(g) states that: “If the investee uses different accounting policies from those of the investor, the investor shall adjust the investee’s financial statements to reflect the investor’s accounting policies for the purpose of applying the equity method unless doing so is impracticable.”

These exemptions are not recommended to be amended, regardless of the Board’s decision on whether to include an impracticability exemption from applying a modified retrospective approach to changes in accounting policies and corrections of prior period errors.

15. To show how staff would recommend modifying the draft text of Section 9 of the draft ED if Board members agree with the staff’s recommendation in para. 13 that an ‘impracticability’ exemption should apply to Tier 3 NFP entities applying a modified retrospective approach to changes in accounting policies and corrections of prior period errors, amendments have been marked up by staff in para. 9.10(b), 9.11(a), 9.11A, 9.13(b), 9.23(a), 9.23A and 9.24(b) of Section 9 in Appendix B in this paper.
16. In relation to paragraph 15, conformity with para. 10.13(d) of the IFRS for SMEs ED and para. 106(d) of AASB 1060 would include disclosing an explanation if it is impracticable to determine the amounts of the adjustments to the opening balances for the current period. As a further simplification, staff propose that if an ‘impracticability’ exemption to modified retrospective application of a change in an accounting policy were to be included in the Tier 3 ED, disclosure of an explanation of why an adjustment is impracticable should not be required. Staff think such a simplification would be proportionate, particularly because users of Tier 3 entities’ financial statements might generally lack the expertise needed for assessing the validity of the reasons disclosed why an adjustment is impracticable.
17. Staff also recommend that, if the Board agrees with the staff’s recommendation in para. 13, a corresponding amendment is made to draft Section 29 (the text in both Agenda Paper 3.2 and Appendix C of this staff paper) to include a general impracticability exemption from the

disclosures of Section 29 for first-time adopters of the Tier 3 Standard. Suggested text for such an amendment is shown below as marked-up amendments of para. 29.12 of Appendix C:

“Regardless of whether a first-time adopter of this Standard elects to apply this section or Section 9 on first-time adoption (see paragraph 29.3), the entity shall make the disclosures in paragraphs 29.13–29.19. The disclosure requirements specific to application of this section or Section 9 are set out in paragraphs 29.20–29.22 and paragraph 29.23, respectively. Each of those disclosures, including those for comparative periods, is required to the extent practicable, with disclosure of the existence of any omissions due to impracticability.”

Questions 2 to 4 to Board members

- (2) Do Board members agree with the staff recommendation in paragraph 13 to include in the Tier 3 ED an ‘impracticability’ exemption from applying a modified retrospective approach to changes in accounting policies and corrections of prior period errors?**
- (3) If Board members agree with the staff recommendation, do they agree with the alternative text marked up in the paragraphs of Appendix B cited in paragraph 15, including the further simplification referred to in paragraph 16?**
- (4) If Board members agree with the staff recommendation, do they agree with the recommended consequential amendment of draft Section 29 to include a general impracticability exemption from the disclosures of that section for first-time adopters of the Tier 3 Standard, as worded in the indented text of paragraph 17?**

Section 29: Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities

Retrospective application

18. At its meeting held on 6-7 June 2024 (see [minutes](#)), the Board [decided](#) to propose to:

“develop transitional requirements based on AASB 1 *First-time Adoption of Australian Accounting Standards* for entities applying the Tier 3 Standard for the first time. Alternatively, these entities would apply the Tier 3 Standard directly by applying a modified retrospective approach to resulting changes in accounting policies with the cumulative effects on prior periods recognised in the current period’s opening retained earnings, without restating the comparative period(s).”

19. The other Board decisions about transitional requirements included in those minutes are specific to particular circumstances (such as entities transitioning from preparing special purpose financial statements to general purpose financial statements) and therefore are not discussed here.
20. The issue underpinning Questions 5-6 for Board members is whether the Board intended to require entities that select and apply the ‘AASB 1 approach’ for first-time application of the Tier 3 reporting requirements (by selecting and applying Section 29 of the draft ED) to apply a fully retrospective approach and therefore restate comparative information presented in respect of prior periods, except for the exemptions specified in para. 29.10 and 29.11 of the draft Tier 3 ED in Agenda Paper 3.2 for this Board meeting. The general requirements in the draft text of Section 29 of the Tier 3 ED were based on the general requirements of AASB 1. In contrast, first-time adopters of the Tier 3 reporting requirements that select and apply Section 9 of the draft Tier 3 ED would apply a modified retrospective approach.

21. Staff observe that the summary of staff recommendations in Table 1 of [Agenda Paper 3.4](#) for the Board meeting held on 6-7 June 2024 stated that optional relief from restating comparative information would not be necessary for first-time adopters of the Tier 3 reporting requirements because comparative information is not restated under the staff's recommendations. However, based on the staff recommendation, the Board's decision to specify the 'AASB 1 approach' (in draft Section 29) without further adjustment as the complement to the modified retrospective approach in draft Section 9 points to a different outcome.

22. AASB 1 para. 7 specifies that:

"An entity shall use the same accounting policies in its opening Australian-Accounting-Standards statement of financial position and throughout all periods presented in its first Australian-Accounting-Standards financial statements."

That requirement should be read in the context of para. 2.12 and 2.22 of the draft Tier 3 ED. Those paragraphs specify that:

"Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements." (para. 2.12)

"Because paragraph 2.12 requires comparative amounts in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that an entity shall present, as a minimum, two of each of the required financial statements and related notes." (para. 2.22)

The example within para. 8 of AASB 1 clarifies further that para. 7 of AASB 1 generally requires a fully retrospective approach (i.e. restating comparative information).

23. Staff's concern is that applying a fully retrospective approach (albeit as one of two approaches permitted under the Board's proposals) would be more onerous than the approach permitted under the exemptions in Appendix E of AASB 1053 *Application of Tiers of Australian Accounting Standards* for for-profit private sector entities applying the Tier 2 reporting requirements. That is, under AASB 1053 the meaning of 'applying AASB 1' differs from the general requirements of AASB 1 on which draft Section 29 of the Tier 3 ED was based. Paragraph E6 of AASB 1053 states:

"Notwithstanding AASB 1 paragraph 7, comparative information need not be restated in the entity's first Australian-Accounting-Standards financial statements (Tier 2). Under this approach, references to the 'date of transition to Australian Accounting Standards' in AASB 1 shall mean the beginning of the first Australian-Accounting-Standards reporting period. Consequently, consistent with AASB 1 paragraph 11, the entity shall recognise adjustments arising from any differences between the carrying amounts in its previous special purpose financial statements and its opening carrying amounts based on the retrospective application of Australian Accounting Standards directly in retained earnings (or, if appropriate, another category of equity) at the beginning of the first Australian-Accounting-Standards reporting period."

24. Therefore, staff recommend that 'applying AASB 1' as per the Board's decision quoted in paragraph 18 should, for the Tier 3 Standard, be clarified to be viewed through a Tier 2 entity's lens; that is, that a specific modification of the general retrospective approach should be specified for Tier 3 NFP entities. Before asking for Board members' views about that recommendation, staff would like to reconfirm with the Board that the outcome for a first-time adopter of the Tier 3 reporting requirements that selects and applies the transitional provisions of AASB 1 (as embodied in Section 29 of the draft Tier 3 ED) would generally be required to apply

a fully retrospective approach. Staff do not recommend this approach for the reasons outlined above.

Question 5 to Board members

Do Board members agree that first-time adopters of the Tier 3 reporting requirements that select and apply the 'AASB 1 approach' for first-time application of the Tier 3 reporting requirements should not be required to apply a fully retrospective approach except for the exemptions specified in para. 29.10 and 29.11 of the draft Tier 3 ED in Agenda Paper 3.2 for this Board meeting?

If the Board agrees with the staff recommendation, staff have considered an alternative approach for Board member's consideration in paragraphs 25-27.

25. If Board members did not intend to require entities that select and apply the 'AASB 1 approach' for first-time adoption of the Tier 3 reporting requirements to generally apply a fully retrospective approach, staff recommend including text providing relief from having to restate comparative information. Staff recommend that this text should be similar to that in para. E6 of AASB 1053 (see quote in paragraph 23). Paragraph E6 of AASB 1053 provided short-term relief for a limited time. In contrast, to provide further simplification compared with Tier 2 reporting requirements and because the transitional requirements would be included in indefinite-life text in Section 29 (e.g. to facilitate entities reapplying the Tier 3 reporting requirements more than once), staff recommend not limiting the period for which the relief mirroring that in AASB 1053 para. E6 should be available to first-time adopters of the Tier 3 reporting requirements.
26. In developing the recommendations in paragraph 25, staff considered whether providing relief from restating comparative information to appliers of Section 29 would remove the difference(s) between the approaches in Section 9 (with its modified retrospective approach to changes in accounting policies) and Section 29, and thus remove the purpose of providing an option to apply either section. Staff observe that, whilst the amendment recommended in paragraph 25 would remove the main difference between Sections 9 and 29, some important differences would remain: namely, the following aspects would remain applicable only to entities that select and apply Section 29:
- (a) the option in draft para. 29.4 to continue applying Tier 1 or Tier 2 reporting requirements to assets or liabilities existing on the transition date;
 - (b) the prohibition of retrospective application of the Tier 3 reporting requirements for the items identified in para. 29.10, which seem likely to have only limited implications for most Tier 3 NFP entities; and
 - (c) the practical reliefs in draft para. 29.11, such as deeming some values to exist, or events to occur, on the date of transition; and permitting Section 20 *Revenue* to be applied either retrospectively or prospectively (these practical reliefs could be significant for many Tier 3 NFP entities).
27. For the reasons discussed in paragraphs 22–26, staff recommend including the following, or similar, text beneath draft para. 29.5 of Agenda Paper 3.2 and Appendix C to this staff paper:
- “Notwithstanding paragraph 29.7, comparative information need not be restated in the entity's first Australian-Accounting-Standards financial statements (Tier 3). Under this approach, references to the 'date of transition' to Australian Accounting Standards in this section shall mean the beginning of the first Australian-Accounting-Standards reporting period. Consequently, consistent with paragraph 29.8, the entity shall record adjustments arising from any differences between the carrying amounts in its most recent previous financial statements and its opening carrying amounts based on the retrospective application of Australian Accounting Standards directly in retained earnings (or, if

appropriate, another category of equity) at the beginning of the first Australian-Accounting-Standards reporting period.”

Question 6 to Board members

If Board members did not intend that application of Section 29 of the Tier 3 ED would require restating comparative information upon first-time adoption of the Tier 3 reporting requirements, do Board members agree with the recommended draft additional paragraph for Section 29 of the Tier 3 ED set out in paragraph 27?

If not, what wording would Board members suggest?

28. The alternative presentation of Section 29 (discussed in paragraphs 29–34 and depicted in Appendix C) is a separate outstanding issue affecting draft Section 29. Therefore, paragraphs 29–34 and Appendix C have not been amended in respect of this issue.

Alternative presentation of Section 29

29. As noted in Agenda Paper 3.2 (draft Tier 3 ED) for consideration at the Board’s September 2024 meeting, [page 92](#), in the Note to Board members preceding draft Section 29 *Transition to General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities*, staff conducted a review/revision of draft Section 29. The principal objective of that review was to clarify which disclosures are applicable to entities transitioning to the Tier 3 Standard by selecting and applying the approach in either Section 9 or Section 29, by grouping the disclosures common to appliers of Section 9 or Section 29, and those specific to appliers of either section (see Appendix C draft para. 29.13 – 29.23). As a result of that review, staff also identified the following recommended improvements to the draft disclosure requirements:

- (a) adding to the disclosures common to appliers of Section 9 or Section 29 the following disclosures previously presented as being applicable to appliers of Section 29 only (those that are additional requirements/exemptions to those in the IFRS for SMEs ED and AASB 1060 are shaded: this is relevant to the comments in paragraph 32):
 - (i) the general disclosure principle in para. 29.13;
 - (ii) the requirement in para. 29.13 to disclose the nature of each change in accounting policy (transferred from para. 29.17), with an exemption from that requirement when the first-time adopter’s most recent previous financial statements were special purpose in nature transferred from the last sentence of para. 29.17;
 - (iii) the requirement to disclose when an entity did not present financial statements for previous periods (para. 29.14);
 - (iv) the requirement to disclose when comparative information is presented on a different basis than the basis required by the Standard for subsequent periods (para. 29.16);
 - (v) the exemption in para. 29.17(b) from needing to distinguish corrections of prior period errors from changes in accounting policies, transferred from para. 29.16(b); and
 - (vi) the requirement to disclose when one of the exemptions in para. 29.17 has been applied; and
- (b) relocating the disclosure in para. 29.4 to para. 29.20.

30. The scope amendments referred to in para. 29(a) are recommended by staff because staff consider that, upon further reflection, the disclosures and exemptions in (i) – (vi) are equally relevant regardless of whether a first-time adopter of the Tier 3 Standard applies Section 29 (fully retrospective approach, with exemptions) or Section 9 (modified retrospective approach). This contrasts with the scope of the disclosures in the corresponding section (Section 35) of the

[IFRS for SMEs ED](#) (and para. 206 – 212 of AASB 1060), on which the draft text of Section 29 in Agenda Paper 3.2 for the Board’s September 2024 meeting (i.e. the draft text provided to the Subcommittee) was based (but with additional Tier 3-specific disclosure requirements also limited in scope to first-time adopters of the Tier 3 requirements that select and apply Section 29).

31. The Bases for Conclusions on the extant IFRS for SMEs Standard and the IFRS for SMEs ED do not explain why most of the disclosure requirements for first-time adopters applying Section 35 are not applicable to first-time adopters applying the section on Accounting Policies, Estimates and Errors (Section 10). Staff construed that because (unlike the draft Tier 3 ED) the IFRS for SMEs ED contains fundamentally similar approaches for first-time adoption in its sections corresponding to Sections 9 and 29 of the draft Tier 3 ED, greater disclosure is required by entities utilising the exemptions from the fully retrospective basis in Section 35 of the IFRS for SMEs ED. Staff consider that the differences between the requirements for first-time adopters in the Tier 3 ED and the IFRS for SMEs ED/AASB 1060 (highlighted by shading in paragraph 29(a)) are sufficiently significant that the scope of the disclosures in the Tier 3 ED should be considered largely independently of the scope of the disclosures in the IFRS for SMEs ED.
32. Regarding the potential issue of whether making the scope of the disclosure-related text broader than that in the IFRS for SMEs ED (and AASB 1060, based on the IFRS for SMEs Standard) might result in more onerous requirements for Tier 3 NFP entities than Tier 2 NFP entities, staff observe that:
 - (a) the differences in para. 29(a)(ii), (v) and (vii) relate, at least in part, to exemptions; and
 - (b) as noted in para. BC8(c) of the draft Basis for Conclusions in Agenda Paper 3.2 for the Board’s September 2024 meeting, regarding the principles applied in developing the Tier 3 requirements, “opportunities for departure from Tier 2 accounting principles that could give a similar outcome to users of the financial statements while reflecting an appropriate cost/benefit balance could include disclosure requirements instead of a Tier 2 measurement requirement”. The Board is proposing a less onerous principle (modified retrospective basis) for first-time adopters selecting and applying Section 9 than the corresponding requirements for Tier 2 entities; therefore, staff consider it proportionate for some additional disclosure requirements (compared with AASB 1060) to be applicable to those first-time adopters.
33. Some of amendments referred to in para. 29(a) were not marked up in Appendix C because amending the scope of these requirements did not require relocating their text.
34. Staff recommend the alternative drafting of Section 29, as reflected in Appendix C, because it improves readability and makes it easier for preparers and other users of the Standard, such as assurance providers, to navigate the disclosure requirements.

Question 7 to Board members

Do Board members agree with the staff recommendation in paragraph 34 to replace Section 29 as presented in Agenda Paper 3.2 with the alternative drafting in Appendix C below?

If not, do Board members agree with Section 29 as currently presented in Agenda Paper 3.2?

Appendix A – Alternative presentation of Section 8 Section 8: Notable relationships, Consolidated and Separate Financial Statements

Scope of this section

8.1 A notable relationship between the reporting entity and another entity ('notable relationship entity') exists when the reporting entity has at least significant influence over the notable relationship entity (with or without holding an investment in the notable relationship entity's equity instruments, if any exist). Notable relationship entities exist when:

- (a) an entity (a parent) controls another entity (a subsidiary) (see paragraphs 8.10–8.26);
- (b) an entity (investor) has significant influence over another entity (investee) (see paragraph 8.2–8.4); or
- (c) an entity (investor) has joint control over another entity or operations (investee) (see paragraphs 13.5–13.11 in Section 13 *Investments in Associates and Joint Arrangements*).

Significant influence

8.2 Significant influence is the power to participate in the financial and operating policy decisions of an entity, without having control or joint control over those policies (see paragraphs 8.3 and 8.4).

8.3 If the reporting entity holds, directly or indirectly (eg through entities it controls), 20 per cent or more of the voting power of another entity, it is presumed to have significant influence over that entity, unless it can clearly be demonstrated that this is not the case based on other factors. Conversely, if the reporting entity holds, directly or indirectly, less than 20 per cent of the voting power of another entity, it is presumed not to have significant influence over that entity, unless significant influence can clearly be demonstrated based on other factors. In assessing a reporting entity's voting power over another entity, the existence and effect of potential voting rights currently exercisable or convertible (including potential voting rights held by other entities) are considered.

8.4 An entity applies judgement in assessing whether it has significant influence over another entity. The existence of a reporting entity's significant influence over another entity is usually evidenced by one or more of the following factors:

- (a) representation on the board of directors or equivalent governing body of the other entity;
- (b) participation in policy-making processes, including participation in decisions about distributions of any surpluses;
- (c) material transactions between the two entities;
- (d) interchange of managerial personnel between the two entities; and
- (e) exchange of essential technical information between the two entities.

Accounting policy election

8.4A When a reporting entity with one or more notable relationships presents separate financial statements and describes them as conforming to this Standard, those separate financial statements shall account for that entity's investments in notable relationship entities at any of:

- (a) cost;
- (b) fair value through profit or loss, unless the entity makes an irrevocable election at initial recording of a particular investment to present changes in its fair value in other comprehensive income; or
- (c) its equity method-based amount determined by following the procedures in paragraph 13.16.

The reporting entity shall apply the same accounting policy for all investments in its notable relationship entities. When an entity presents changes in the fair value of particular investments in other comprehensive income, those changes shall not subsequently be transferred to profit or loss.

Disclosures

8.5 In respect of each notable relationship entity, an entity shall disclose:

- (a) its name;
- (b) a description of its relationship with the reporting entity;
- (c) a clear and concise description of its primary purpose and an indication of the nature of its operations;

Commented [A1]: Note to Board members

The first sentence in this paragraph is directly transferred from paragraph 8.28 of the draft Tier 3 ED.

Commented [A2]: Note to Board members

Staff have include a reference to operations to clarify that joint control can include operations.

Commented [A3]: Note to Board members

Paragraphs 8.2 – 8.5 are transferred directly from paragraphs 8.28 to 8.31.

Commented [A4]: Note to Board members

Staff have added new paragraph of the measurement requirements rather than adding a cross reference to paragraph 8.34 because, as noted paragraph 4(a) - 4(c), staff have isolated the notable relationships requirements including the measurement and disclosure requirements of notable relationship entities into its subsection to improve readability.

- (d) whether the notable relationship entity prepares audited or reviewed financial statements; and
- (e) the information required by paragraphs 28.8–28.14 in Section 28 *Related Party Disclosures*.

8.5A The separate financial statements shall disclose, in addition to the disclosures in paragraph 8.5:

- (a) that they are separate financial statements; and
- (b) a description of the methods used to account for the investments in notable relationship entities.

8.6 Notwithstanding paragraphs 8.4A, 8.5 and 8.5A, if the reporting entity has a notable relationship with another entity (see paragraphs 8.28–8.29), ~~it a reporting entity with a notable relationship~~ is not required to apply those requirements in paragraph 8.4A or make the disclosures in paragraphs 8.34, 8.5 and 8.5A when:

- (a) the notable relationship entity is ~~incorporated~~ included in consolidated financial statements presented by the reporting entity for the period ~~because:~~
 - (i) ~~it is a subsidiary; or~~
 - (ii) ~~it is an associate or a joint venture of a reporting entity with one or more subsidiaries and the reporting entity's investment in it is included in the consolidated financial statements (see paragraph 13.12 in Section 13 *Investment in Associates and Joint Ventures* including the relevant disclosures in paragraphs 13.25–13.28); or~~
- (b) ~~the reporting entity has no subsidiaries and the notable relationship entity is an associate or a joint venture in which the reporting entity's investment is measured in separate financial statements at fair value (through profit or loss or in other comprehensive income) or by applying the equity method (see paragraph 13.13). Instead, the reporting entity shall disclose the relevant information required by paragraphs 13.25–13.28, the reporting entity elects to prepare separate financial statements in addition to consolidated financial statements; or~~
- (c) ~~the notable relationship entity is an associate or a joint venture and the reporting entity's investment in it is accounted for using either:~~
 - (i) the equity method (see paragraph 13.16); or
 - (ii) fair value (through profit or loss or in other comprehensive income) (see paragraphs 13.17 and 13.18);

and the separate financial statements include the disclosures required by paragraphs 13.25–13.28.

Consolidated and separate financial statements

8.47 ~~This section Paragraphs 8.10–8.36~~ define the circumstances in which an entity applying this Standard:

- (a) presents consolidated financial statements and the procedures for preparing those financial statements in accordance with this Standard. ~~It also includes disclosure requirements about the entities in which the reporting entity has at least significant influence over, referred to as notable relationships, in separate financial statements; and~~
- (b) ~~guidance on how to prepare~~ separate financial statements, including guidance on how to prepare those separate financial statements in accordance with this Standard, ~~if they are prepared.~~

8.28 ~~A reporting entity that, in applying paragraphs 8.4–8.4, identifies it has subsidiaries shall~~ An entity that is a parent can elect to present either:

- (a) ~~present consolidated financial statements in which it consolidates its subsidiaries, by including the parent and all of its subsidiaries. The consolidated financial statements, prepared in accordance with paragraphs 8.15–8.26, 10–8.33, shall not consolidate any entity that is not a subsidiary; or~~
- (b) present, as its only financial statements, separate financial statements that:
 - (i) ~~do not consolidate any subsidiaries. Instead, the separate financial statements account for any subsidiaries in accordance with paragraphs 8.29A, 8.5 and 8.5A and disclose the information required by paragraph 8.30.~~
 - (ii) ~~are prepared in accordance with paragraphs 8.34–8.35; and~~
 - (iii) ~~disclose the information about its notable relationships specified in paragraph 8.31. 'Notable relationships' are defined in paragraph 8.29.~~

8.39 ~~Notwithstanding paragraph 8.2(b), a reporting entity~~ A parent entity that elects to present consolidated financial statements in accordance with paragraph 8.2(a), ~~it may~~ is also permitted to present separate financial statements. ~~Those separate financial statements presented in addition to consolidated financial statements shall apply the requirements in paragraph 8.33 and are not required to disclose the information about notable relationships specified in paragraphs 8.5 and 8.5A.~~

Presentation of consolidated financial statements

8.9A A reporting entity that, in applying paragraphs 8.10–8.20, identifies it has subsidiaries and elects to present consolidated financial statements shall prepare those consolidated financial statements by including the parent and consolidating all its subsidiaries in accordance with paragraphs 8.21–8.32. The consolidated financial statements shall not consolidate any entity that is not a subsidiary.

...

Disclosures about notable relationships in financial statements other than consolidated financial statements

8.27 Notwithstanding paragraph 8.31, if the reporting entity has a notable relationship with another entity (see paragraphs 8.28–8.29), it shall make the disclosures specified is not required to make the disclosures in paragraph 8.31, except that it may elect not to make those disclosures when:

- (d) the notable relationship entity is incorporated in consolidated financial statements presented by the reporting entity for the period because:
 - (i) it is included as a subsidiary; or
 - (ii) it is an associate or a joint venture of a reporting entity with one or more subsidiaries and the reporting entity's investment in it is included in the consolidated financial statements (see paragraph 13.12 in Section 13 *Investment in Associates and Joint Ventures* including the relevant disclosures in paragraphs 13.25–13.28); or
- (e) the reporting entity has no subsidiaries and the notable relationship entity is an associate or a joint venture in which the reporting entity's investment is measured in separate financial statements at fair value (through profit or loss or in other comprehensive income) or by applying the equity method (see paragraph 13.13). Instead, the reporting entity shall disclose the relevant information required by paragraphs 13.25–13.28.

8.28 A notable relationship of the reporting entity with another entity ('notable relationship entity') exists when the reporting entity has at least significant influence over that entity (with or without holding an investment in the other entity's equity instruments, if any exist). This includes, but is not limited to, having control or joint control over that other entity. Significant influence is the power to participate in the financial and operating policy decisions of an entity, without having control or joint control over those policies.

8.29 If the reporting entity holds, directly or indirectly (eg through entities it controls), 20 per cent or more of the voting power of another entity, it is presumed to have significant influence over that entity, unless it can clearly be demonstrated that this is not the case based on other factors. Conversely, if the reporting entity holds, directly or indirectly, less than 20 per cent of the voting power of another entity, it is presumed not to have significant influence over that entity, unless significant influence can clearly be demonstrated based on other factors. In assessing a reporting entity's voting power over another entity, the existence and effect of potential voting rights currently exercisable or convertible (including potential voting rights held by other entities) are considered.

8.30 An entity applies judgement in assessing whether it has significant influence over another entity. The existence of a reporting entity's significant influence over another entity is usually evidenced by one or more of the following factors:

- (a) representation on the board of directors or equivalent governing body of that other entity;
- (b) participation in policy-making processes, including participation in decisions about distributions of any surpluses;
- (c) material transactions between the two entities;
- (d) interchange of managerial personnel between the two entities; and
- (e) exchange of essential technical information between the two entities.

8.31 In respect of each notable relationship entity, an entity shall disclose:

- (a) its name;
- (b) a description of its relationship with the reporting entity;
- (c) a clear and concise description of its primary purpose and an indication of the nature of its operations; 4
- (d) whether the notable relationship entity prepares audited or reviewed financial statements; and

Commented [A5]: Note to Board members

This would be the renumbered paragraph of the guidance on Assessing control of an investee (in Agenda Paper xx para. 8.4–8.14) and the renumbered para. 8.21–8.32 would be the guidance on consolidation procedures (in Agenda Paper xx para. 8.15–8.26). Those paras would remain unchanged and would follow after para 8.9A.

Commented [A6]: Note to Board members

Paragraphs 8.4 – 8.26 in Agenda Paper 3.2 will remain unchanged but will be renumbered to para. 8.10 – 8.32.

(e) ~~information required by paragraphs 28.8—28.14 in Section 28 *Related Party Disclosures*.~~

Separate financial statements

8.33 Separate financial statements are:

- (a) a second set of financial statements that a parent entity elects to present in addition to consolidated financial statements ~~provided the separate financial statements do not consolidate its subsidiaries that a parent entity elects to prepare; or~~
- (b) financial statements prepared by a reporting entity that has one or more notable relationships and does not present consolidated financial statements, including:
 - (i) ~~an investor that is not a parent with one or more investments in associates or joint ventures; or~~
 - (ii) ~~a parent that elects to only present separate financial statements instead of consolidated financial statements).~~

The financial statements of an entity without notable relationships are not separate financial statements.

Accounting policy election

8.34 When a reporting entity with one or more ~~notable relationships~~ investments in subsidiaries, associates or joint ventures, prepares separate financial statements and describes them as conforming to this Standard, those separate financial statements shall account for ~~its those investments in notable relationship entities~~ at any of:

- (a) cost;
- (b) fair value through profit or loss, unless the entity makes an irrevocable election at initial recording of a particular investment to present changes in its fair value in other comprehensive income; or
- (c) its equity method-based amount determined by following the procedures in paragraph 13.16.

The entity shall apply the same accounting policy for all investments in a single class ~~(subsidiaries, associates or joint venture)~~, but can elect different policies for different classes. When an entity presents changes in the fair value of particular investments in other comprehensive income, those changes shall not subsequently be transferred to profit or loss.

Disclosures in separate financial statements

8.35 When an investor ~~in a notable relationship entity~~ prepares separate financial statements, those separate financial statements shall disclose, ~~in addition to the disclosures in paragraph 8.31:~~

- (a) that they are separate financial statements; and
- (b) a description of the methods used to account for the investments in ~~notable relationship entities~~ subsidiaries, joint ventures and associates.

Appendix B – Extract from draft Section 9 of the Tier 3 ED marked up for staff-recommended ‘impracticability’ exemption from restating opening balances

Section 9: Accounting policies, estimates and errors

Applying changes in accounting policies

- 9.10 Except when paragraph 9.12 applies, an entity shall account for:
- (a) a change in accounting policy resulting from a change in the requirements of this Standard in accordance with the transitional provisions, if any, specified in that amendment; and
 - (b) all other changes in accounting policy using a modified retrospective approach (see paragraphs 9.11–9.11A). This applies to voluntary changes in accounting policy and changes in accounting policy resulting from a change in the requirements of this Standard without accompanying specified transitional provisions.

Modified retrospective approach

- 9.11 When a change in an accounting policy is applied using a modified retrospective approach in accordance with paragraph 9.10, the entity shall record the cumulative effect of the new accounting policy as if the new accounting policy had always been applied, without restating information presented for comparative periods. The entity implements this requirement by:
- (a) as at the beginning of the reporting period in which the new accounting policy is first applied (the ‘current period’), subject to paragraph 9.11A:
 - (i) applying the new accounting policy to the carrying amounts of assets and liabilities as at that date; and
 - (ii) making a corresponding adjustment to the opening balance of each affected component of equity (eg retained earnings) for that period; and
 - (b) recording the effects of transactions and other events for the current period in (a) by applying the new accounting policy to that period.

Making the adjustments in (a) to opening balances for the current period ensures the profit or loss and any other components of comprehensive income for that period are unaffected by the effects of the change in accounting policy pertaining to prior periods.

- 9.11A When it is impracticable to determine the cumulative effect, as at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall:

- (a) adjust the opening balances of assets, liabilities and items of equity to reflect application of the new accounting policy prospectively from the earliest date practicable, which might be the beginning of the current period; and
- (b) disregard the portion of the cumulative adjustment to assets, liabilities and items of equity arising before the date in (a).

- 9.12 Although a change in the measurement basis applied is a change in an accounting policy, not a change in an accounting estimate, this [proposed] Standard requires it be accounted for similarly to a change in an accounting estimate (ie prospectively, consistent with paragraph 9.18).

Disclosure of a change in an accounting policy

- 9.13 When an amendment to this Standard or a voluntary change in an accounting policy affects the opening balances of assets, liabilities or items of equity for the current period or other amounts recorded for the current period, an entity shall disclose the following:
- (a) the nature of the change in accounting policy;
 - (b) the amounts of the adjustments to the opening balances for the current period, to the extent practicable; and
 - (c) for all other effects on the assets, liabilities, income and expenses for the current period, the amount of the adjustment for each financial statement line item affected.

Commented [A7]: Note to Board members:

This paragraph is additional to those presented in the draft text of the Tier 3 ED, and therefore marked up with underlining. It is based on para. 25 of AASB 108 with some editing .

Commented [A8]: Note to Board members:

This additional text is based on a similar additional clarification in para. 10.12 of the IFRS for SMEs ED.

Commented [A9]: Note to Board members:

This text is based on the second sentence of para. 27 of AASB 108.

Commented [A10]: Note to Board members:

This addition includes an ‘impracticability’ exemption for disclosure of the cumulative catch-up adjustment to the opening balances of assets, liabilities and items of equity, consistent with para. 10.13(c) of the IFRS for SMEs ED and para. 106(c) of AASB 1060.

When a modified retrospective approach is used to account for a change in an accounting policy, the entity's statement of significant accounting policies shall disclose that fact and therefore that comparative information presented for prior periods was not adjusted in line with the adjustments to opening balances for the current period.

- 9.14 When a voluntary change in an accounting policy affects the opening balances of assets, liabilities or items of equity for the current period or other amounts recorded for the current period, an entity shall disclose the reasons why applying the new accounting policy provides reliable and more relevant information.
- 9.15 The disclosures made in accordance with paragraph 9.13 or 9.14 need not be repeated in financial statements of subsequent periods.

Corrections of prior period errors

- 9.21 Prior period errors are omissions from, and misstatements in, an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
- (a) was available when financial statements for those periods were authorised for issue; and
 - (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
- 9.22 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
- 9.23 Potential errors identified during the reporting period shall be corrected before the financial statements are authorised for issue. An entity shall correct a material prior period error using a modified retrospective approach in the first financial statements authorised for issue after its discovery. Using a modified retrospective approach, the entity shall record the cumulative effect of the correction of the prior period error as if the prior period error had not been made, without restating information presented for comparative periods. The entity implements this requirement by:
- (a) as at the beginning of the reporting period in which the prior period error is corrected (the 'current period'), subject to paragraph 9.23A:
 - (i) applying the correction to the carrying amounts of assets and liabilities as at that date; and
 - (ii) making a corresponding adjustment to the opening balance of each affected component of equity (eg retained earnings) for that period; and
 - (b) recording the effects of transactions and other events for the current period in (a) by applying the corrected method of recording to that period.

Making the adjustments in (a) to opening balances for the current period ensures the profit or loss and any other components of comprehensive income for that period are unaffected by the effects of the error pertaining to prior periods.

- 9.23A When it is impracticable to determine the cumulative effect, as at the beginning of the current period, of an error on all prior periods, the entity shall restate the opening balances of assets, liabilities and items of equity to reflect correcting the error prospectively from the earliest date practicable, which might be the beginning of the current period. It therefore disregards the portion of the cumulative restatement of assets, liabilities and items of equity arising before that date.

Commented [A11]: Note to Board members:

This paragraph is additional to those presented in the draft text of the Tier 3 ED, and therefore marked up with underlining. It is based on para. 45 of AASB 108 with some editing.

Commented [A12]: Note to Board members:

This additional text is based on a similar additional clarification in para. 10.22 of the IFRS for SMEs ED.

Commented [A13]: Note to Board members:

This text is based on the second sentence of para. 47 of AASB 108.

Disclosure of prior period errors

- 9.24 An entity shall disclose the following about each prior period error:
- (a) a description of the error and how it was corrected; and
 - (b) the amount of the correction to the opening balances of assets, liabilities and items of equity for the current period, to the extent practicable.

Financial statements of subsequent periods need not repeat these disclosures.

- 9.25 Disclosure of how a prior period error was corrected (in accordance with paragraph 9.24(a)) includes disclosing that a modified retrospective approach was used and therefore that comparative information presented for prior periods was not restated in line with the corrections to opening balances for the current period. Application of a modified retrospective approach to correct prior period errors shall be disclosed in the entity's statement of significant accounting policies.

Commented [A14]: Note to Board members:

This addition includes an 'impracticability' exemption for disclosure of the cumulative catch-up adjustment to the opening balances of assets, liabilities and items of equity, consistent with para. 10.23(c) of the IFRS for SMEs ED and para. 110(c) of AASB 1060.

Appendix C – Alternative presentation of Section 29

Scope and application of this section

- 29.1 Subject to the option in paragraph 29.3, a first-time adopter of this Standard shall apply this section, regardless of its previous accounting framework (eg another tier of Australian Accounting Standards or special purpose financial statements) and whether it has previously applied this Standard, in its first Tier 3 financial statements. These are the first financial statements that both:
- (a) conform with the requirements of this Standard in all respects; and
 - (b) contain an explicit and unreserved statement that they comply fully with this Standard.
- 29.2 Circumstances in which an entity prepares its first financial statements in accordance with this Standard include when the entity:
- (a) did not present general purpose financial statements for previous periods; or
 - (b) presented its most recent previous financial statements in conformity with Tier 1 Australian Accounting Standards or Tier 2 Australian Accounting Standards.
- 29.3 When applying Tier 3 reporting requirements for the first time, an entity shall select and apply either:
- (a) subject to paragraph 29.4, the transition requirements set out in this section; or
 - (b) all relevant requirements of this Standard on a modified retrospective basis in accordance with Section 9 Accounting Policies, Estimates and Errors (ie record the cumulative effect of the new accounting policy as at the beginning of the reporting period of first-time adoption as if it had always been applied, without restating information presented for comparative periods)–~~When such an entity does not elect to apply this section, it is still~~ and apply the disclosure requirements in:
 - (i) ~~required to apply the disclosure requirements in paragraphs 29.413–29.19 (including the election to use the disclosure exemption in paragraph 29.18) in addition to the disclosure requirements in Section 9; and~~
 - (ii) ~~subject to the disclosure options in paragraph 29.4523.~~
- 29.4 In relation to some or all assets or liabilities existing on the transition date, first-time adopters of this Standard transitioning from application of Tier 1 or Tier 2 requirements of Australian Accounting Standards (as referred to in AASB 1053 *Application of Tiers of Australian Accounting Standards*) may elect to continue applying all related Tier 1 or Tier 2 recording, measurement and disclosure requirements to those assets or liabilities, ~~with disclosure of the accounting policy differences from those specified for Tier 3 entities in this Standard.~~

Commented [A15]: [Note to Board members:](#)
The main draft amendment of this paragraph is bifurcating it for easier readability.

Commented [A16]: [Note to Board members:](#)
This text was relocated to para. 24.19.

First-time adoption

- 29.5 Notwithstanding paragraph 2.12, an entity need not disclose comparative information in its first Tier 3 financial statements if it did not disclose comparable information in its most recent previous financial statements.
- 29.6 Depending on the election made by the entity in paragraph 29.3, and regardless of the election made in paragraph 29.4, an entity's date of transition to this Standard is:
- (a) if the entity elects to apply this section, the beginning of the earliest period for which the entity presents full comparative information in accordance with this Standard in its first financial statements that conform to this Standard; or
 - (b) if the entity elects to apply Section 9, the beginning of the current period in which this Standard is first applied (with the cumulative effect of changed accounting policies on the carrying amounts of assets and liabilities as at that date recorded as at the date of transition).

Procedures for preparing financial statements at the date of transition

- 29.7 Except as provided in paragraphs 29.10 and 29.11, an entity shall on its date of transition to this Standard (ie the beginning of the first reporting period for which this Standard is fully complied with):
- (a) record all assets and liabilities that this Standard requires to be recorded;
 - (b) cease recording items as assets or liabilities if this Standard does not permit such recording;
 - (c) reclassify items previously recorded under another financial reporting framework as one type of asset, liability or component of equity that are a different type of asset, liability or component of equity under this Standard; and

- (d) apply this Standard in measuring all recorded assets and liabilities.
- 29.8 The accounting policies an entity uses as at the date of transition to this Standard might differ from those it used for the immediately preceding reporting date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this Standard. Consequently, an entity shall record those adjustments directly in retained earnings (or, if appropriate, another category of equity) as at the date of transition to this Standard.
- 29.9 An entity may need to make estimates in accordance with this Standard at the date of transition to this Standard that were not required at that date under the entity's previous financial reporting framework. To achieve consistency with Section 27, those estimates made in accordance with this Standard shall reflect conditions that existed at the date of transition to this Standard. In particular, estimates at the date of transition to this Standard of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 29.10 On first-time adoption of this Standard, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following items:
- (a) ceasing to record financial assets and financial liabilities. Financial assets and financial liabilities that an entity ceased recording under its previous financial reporting framework before the date of transition shall not be reinstated (ie recorded) upon adoption of this Standard. Conversely, for financial assets and financial liabilities an entity would have ceased recording under this Standard in a transaction that took place before the date of transition, but that continued to be recorded under the entity's previous accounting framework, the entity may elect to either: (i) cease recording them on adoption of this Standard; or (ii) continue recording them until disposed of or settled;
 - (b) accounting estimates;
 - (c) fair value measurements; and
 - (d) measuring non-controlling interests. The requirements of paragraph 4.5 to allocate profit or loss and total comprehensive income between non-controlling interest and owners of the parent shall be applied prospectively from the date of transition to this Standard.
- 29.11 Without limitation to the option in paragraph 29.4 for first-time adopters of this Standard transitioning from the application of Tier 1 or Tier 2 requirements of Australian Accounting Standards to continue applying those requirements to assets and liabilities existing on the transition date, an entity may use one or more of the following exemptions in preparing its first financial statements that conform to this Standard:
- (a) fair value or current replacement cost as deemed cost. As at the date of transition to this Standard, a first-time adopter may elect to measure:
 - (i) an item of property, plant and equipment, an investment property or an intangible asset at its fair value; and
 - (ii) an item of inventory at its current replacement cost
 and use that value as its deemed cost as at that date;
 - (b) separate financial statements. When an entity prepares separate financial statements, paragraph 8.34 requires it to account for its investments in notable relationship entities at any of:
 - (i) cost;
 - (ii) fair value through profit or loss, unless the entity makes an irrevocable election at initial recording of a particular investment to present changes in its fair value in other comprehensive income; or
 - (iii) its equity method-based amount determined by following the procedures in paragraph 13.16.
 If a first-time adopter measures such an investment at cost as at the date of transition, it may elect to deem the fair value of that investment at that date to be that investment's 'cost' (ie use 'deemed cost' to measure the investment);
 - (c) restoration/rehabilitation liabilities included in the cost of property, plant and equipment. Paragraph 15.5(c) states that the cost of an item of property, plant and equipment includes the initial estimate of any related restoration, rehabilitation or other 'make good' obligation. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to this Standard, instead of on the date(s) when the obligation initially arose;
 - (d) revenue. A first-time adopter may apply Section 20 *Revenue* either retrospectively or prospectively.

When applying Section 20 retrospectively to completed contracts/arrangements (ie contracts/arrangements for which the entity has transferred all the promised goods or services identified in accordance with its previous financial reporting framework), for all contracts/arrangements with variable consideration, an entity may use the transaction price at the contract's/arrangement's date of completion (rather than estimating variable consideration amounts in the comparative reporting periods), provided it discloses its use of this practical expedient.

When applying Section 20 prospectively, an entity shall:

- (i) apply that section to contracts/arrangements that begin, and transactions that occur, after the date of transition to this Standard. Therefore, the entity does not change its accounting policy for any contracts/arrangements in progress at that date; and
 - (ii) disclose the nature of the changes in accounting policy; and
- (e) financial assets measured at fair value as at each measurement date. For a class of financial assets acquired or originated by the entity to generate both income and a capital return for it, and measured at fair value as at each measurement date in accordance with paragraph 10.6(a) of Section 10 *Financial Instruments* of this Standard, the date of transition to this Standard may be deemed to be the date of initial recording of the first asset in that class. Consequently, if such a class of financial assets were held upon the date of transition to this Standard, the irrevocable election permitted by paragraph 10.6(a)(i) to present changes in the fair value of that class in other comprehensive income may be made as at the date of transition to this Standard by deeming that date to be the date of initial recording of the first asset in that class.

Disclosures

29.12 The disclosures in paragraphs 29.14–29.20 shall be made if an entity applies the requirements of this section on first-time adoption. ~~Regardless of whether a first-time adopter of this Standard elects to apply this section or Section 9 on first-time adoption (see paragraph 29.3), the entity shall make the disclosures in paragraphs 29.13–29.19. If an entity applies~~ The disclosure requirements of specific to application of this section or Section 9 *Accounting Policies, Estimates and Errors* on first-time adoption, it shall make the disclosures required by Section 9 are set out in paragraphs 29.20–29.22 and paragraph 29.23, respectively.

Disclosures common to Sections 9 and 29

Explanation of transition to this Standard

- 29.13 An entity shall explain how the transition from its previous financial reporting framework to this Standard affected its reported financial position, financial performance and cash flows. This explanation shall include a description of the nature of each change in accounting policy, except that, if the most recent previous financial statements of a first-time adopter of this Standard were special purpose financial statements, the entity may elect not to disclose such a description.
- 29.14 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.
- 29.15 An entity that has applied this Standard in a previous period shall disclose:
- (a) the reason it stopped applying this Standard
 - (b) the reason it is resuming the application of this Standard; and
 - (c) whether it applied this section or applied this Standard using a modified retrospective approach in accordance with Section 9.
- 29.16 An entity that, on first-time adoption of this Standard, presents comparative information on a different basis than as required by this Standard for subsequent periods shall:
- (a) prominently label the comparative information that is not compliant with Tier 3 reporting requirements as being non-compliant with Tier 3 reporting requirements; and
 - (b) disclose the financial reporting framework under which it was prepared (eg special purpose financial reporting, Australian-Accounting-Standards financial statements (Tier 1) or Australian-Accounting-Standards financial statements (Tier 2)).
- 29.17 Regardless of whether a first-time adopter of this Standard elects to apply this section or Section 9 (see paragraph 29.3), on first-time adoption the entity:

Commented [A17]: Note to Board members:

This is now the introductory paragraph providing an overview of the structure and applicability of the proposed disclosure requirements (according to whether Section 9 or Section 29 is applied on first-time adoption of the Tier 3 Standard), as explained in the stem of para. 29 of this paper.

Commented [A18]: Note to Board members:

As noted in para. 29(a)(i) of this paper, this general disclosure principle is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32.

Commented [A19]: Note to Board members:

As noted in para. 29(a)(ii) of this paper, this requirement and exemption are suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32. Consequently, they were transferred from para. 29.17 [sub-para. (a) and last sentence].

Commented [A20]: Note to Board members:

As noted in para. 29(a)(iii) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32.

Commented [A21]: Note to Board members:

As noted in para. 29(a)(iv) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32.

Commented [A22]: Note to Board members:

As noted in para. 29(a)(v) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32.

- (a) in accordance with paragraph 29.5, need not disclose comparative information for the previous comparable period if it did not disclose comparative information in its most recent previous financial statements. Therefore, entities applying a modified retrospective basis to adopt this Standard in accordance with Section 9 need not disclose comparative information under the accounting policy previously applied to an item that was not previously disclosed; and
- (b) need not distinguish corrections of prior period errors from changes in accounting policies when disclosing adjustments to the carrying amounts of assets, liabilities or items of equity on initial adoption.

29.18 ~~If an entity applies one or more either of the exemptions set out in paragraphs 29.6, 17 and 29.15, it shall disclose that fact.~~

Disclosures required by entities applying this section

29.19 ~~If, in accordance with the option in paragraph 29.3, an entity elects to apply the requirements of this section on first-time adoption of this Standard, it shall make the disclosures in paragraphs 29.20 – 29.22 in addition to those in paragraphs 29.13–29.18.~~

29.20 ~~If, pursuant to paragraph 29.4, an entity elects to continue applying all related Tier 1 or Tier 2 recording, measurement and disclosure requirements to particular assets or liabilities existing on the transition date for first-time adoption of this Standard, it shall disclose the accounting policy differences from those specified for Tier 3 entities in this Standard.~~

Reconciliations

29.17 ~~In its first financial statements prepared using this Standard, an entity is encouraged, but not required, to:~~

- (a) ~~shall include a description of the nature of each change in accounting policy;~~
- (ba) ~~is encouraged, but not required, to include reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this Standard for both of the following dates:~~
 - (i) the date of transition to this Standard; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework; and
- (eb) ~~is encouraged, but not required, to include a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this Standard for the same period. However, if the most recent previous financial statements of a first-time adopter of this Standard were special purpose financial statements, the entity may elect not to make the disclosures in (a) in its first financial statements prepared in accordance with this Standard.~~

29.18 ~~If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to this Standard.~~

29.19 ~~22 If an entity applies makes one or more of the exemptions set out in paragraphs 29.5, 11 and 29.15, it shall disclose that fact. In relation to paragraph 29.11(d), those disclosures shall include:~~

- (a) any use of the practical expedient available for retrospective application of Section 20; or
- (b) any change in accounting policy resulting from prospective application of Section 20, on first-time adoption of this Standard.

29.20 ~~An entity that, on first-time adoption of this Standard, presents comparative information on a different basis than as required by this Standard for subsequent periods shall:~~

- (a) prominently label the comparative information that is not compliant with Tier 3 reporting requirements as being non-compliant with Tier 3 reporting requirements; and
- (b) disclose the financial reporting framework under which it was prepared (eg special purpose financial reporting, Australian Accounting Standards financial statements (Tier 1) or Australian Accounting Standards (Tier 2)).

Disclosures required by entities applying Section 9

Commented [A23]: Note to Board members:

As noted in para. 29(a)(vi) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32.

Commented [A24]: Note to Board members:

This is another introductory paragraph complementing draft para. 29.12, regarding the structure and applicability of the proposed disclosure requirements (according to whether Section 9 or Section 29 is applied on first-time adoption of the Tier 3 Standard), as explained in the stem of para. 29 of this paper.

Commented [A25]: Note to Board members:

As noted in para. 29(b) of this paper, this requirement was transferred from para. 29.4.

Commented [A26]: Note to Board members:

As noted in para. 29(a)(ii) of this paper, this requirement and exemption are suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32. Consequently, sub-para. (a) and the last sentence were transferred to para. 29.13.

Commented [A27]: Note to Board members:

As noted in para. 29(a)(iii) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 30-32. Therefore, it was transferred to para. 29.14.

Commented [A28]: Note to Board members:

These specific disclosure requirements are repeated from para. 29.11(d) to ensure completeness of the disclosures sub-section of Section 29. Their status as being applicable only to first-time adopters of the Tier 3 Standard that select and apply Section 29 is unchanged. The references to these disclosures in para. 29.11(d) are proposed to be retained for ease of reference and readability.

Commented [A29]: Note to Board members:

As noted in para. 18(a)(iv) of this paper, this requirement is suggested to become applicable to all first-time adopters of the Tier 3 Standard, for the reasons discussed in para. 19-21. Therefore, it was transferred to para. 29.16.

29.23 If, in accordance with the option in paragraph 29.3, an entity elects to apply the requirements of Section 9 on first-time adoption of this Standard, it shall make the disclosures required by paragraph 9.13 in Section 9 in addition to those in paragraphs 29.13–29.18.

Commented [A30]: Note to Board members:

This is another introductory paragraph complementing draft para. 29.12, regarding the structure and applicability of the proposed disclosure requirements (according to whether Section 9 or Section 29 is applied on first-time adoption of the Tier 3 Standard), as explained in the stem of para. 29 of this paper.