



Project:	Australian Financial Reporting Framework	Meeting:	AASB June 2021 (M181)
Topic:	Principles for assessing the applicability of disclosure-only amendments to Tier 1 Standards to AASB 1060	Agenda Item:	15.1
Contact(s):	Kim Carney kcarney@asb.gov.au Nikole Gyles ngyles@asb.gov.au	Date of Agenda Paper	7 June 2021
		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Initial deliberations

OBJECTIVE OF THIS PAPER

1. The objective of this paper is for the Board to consider proposed amendments to the [AASB For-Profit Entity Standard-Setting Framework](#) (the FP SSF) and the [AASB Not-for-Profit Entity Standard-Setting Framework](#) (the NFP SSF) to clarify the principles applied by the Board in determining whether to make changes to [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#). The proposed amendments relate to circumstances when the IASB makes disclosure-only amendments to IFRS Standards (i.e., the amendments made by the IASB do not affect recognition and measurement requirements).

REASONS FOR BRINGING THIS PAPER TO THE BOARD

2. Recently, the IASB made amendments to two IFRS Standards (IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments do not affect recognition and measurement requirements. The amendments to IAS 1 affect only disclosure requirements and the amendments to IAS 8 affect definitions. The amendments are effective from 1 January 2023.
3. In Australia, the amendments were made in [AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates](#) and apply to entities preparing Tier 1 general purpose financial statements¹. Staff are aware of at least one jurisdiction in the public sector preparing Tier 2 general purpose financial statements that would like to early adopt the amendments if the amendments are also made to AASB 1060, when the entity transitions to AASB 1060 on 1 July 2021 (the mandatory transition date).
4. The FP SSF and NFP SSF set out the principles used by the AASB to determine the content of Australian Accounting Standards, including the principles that the Board applies in determining Tier 2 disclosure requirements and amendments thereof.

¹ AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two Tiers of reporting requirements for preparing general purpose financial statements:
(a) Tier 1: Australian Accounting Standards; and
(b) Tier 2: Australian Accounting Standards – Simplified Disclosures (for annual periods beginning on or after 1 July 2021).

5. When considering possible amendments to AASB 1060, staff note that the existing principles in both Standard-Setting Frameworks (SSFs) could be clarified to help ensure consistent application.

ATTACHMENTS

- Agenda paper 15.3 *AASB For-Profit Entity Standard-Setting Framework* (October 2020) [supporting material folder]
- Agenda paper 15.4 *AASB Not-for-Profit Entity Standard-Setting Framework* (October 2020) [supporting material folder]

STRUCTURE

6. This Staff Paper is set out as follows:
 - (a) Background (paragraphs 7 to 10)
 - (b) Draft Principles for amending disclosure requirements in AASB 1060 (paragraphs 11 to 18)

BACKGROUND

7. AASB 1060 is a separate disclosure standard applied by all entities reporting under Tier 2 of the Reporting Framework in AASB 1053. AASB 1060 replaces the current Reduced Disclosure Requirements (RDR) framework for annual periods beginning on or after 1 July 2021.
8. AASB 1060 disclosure requirements are determined using a 'bottom-up' approach, starting with the disclosures in the IASB's *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs Standard). As outlined in both SSFs, this is based on the premise that:
 - (a) the disclosures in the IFRS for SMEs Standard should be retained where the recognition and measurement requirements and options are the same or similar in the IFRS for SMEs Standard and full IFRS Standards (and therefore Tier 1);
 - (b) where recognition and measurement requirements or options in the IFRS for SMEs Standard are not available in full IFRS Standards (and therefore Tier 1), the related disclosures will be removed; and
 - (c) where the recognition and measurement principles in full IFRS Standards (and therefore Tier 1) are significantly different from those in the IFRS for SMEs Standard or certain topics are not addressed in the IFRS for SMEs Standard, disclosures may be added.
9. Based on the principles in paragraph 8 above, the Board applies the following approach when considering whether to add to or amend disclosure requirements in AASB 1060 for amendments made by the IASB to full IFRS Standards:
 - (a) if the amendments introduce significant recognition and measurement differences between full IFRS Standards and the IFRS for SMEs Standard, apply the principles applied by the IASB in developing the IFRS for SMEs Standard, which are based on the view that users of financial statements of for-profit entities that are not publicly accountable are particularly interested in certain information²; and
 - (b) if the amendments do not introduce significant recognition and measurement differences, no further action is required unless the disclosures address a matter of public policy or are of particular relevance in the Australian environment.
10. As previously noted, while the principle in (b) above applies to amendments made by the IASB to full IFRS Standards that only affect disclosures (because they do not affect recognition and measurement requirements), it is helpful to clarify this principle so that it clearly applies when disclosure-only

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

amendments are made that result in disclosure reductions or clarifications to existing disclosure requirements.

DRAFT PRINCIPLES FOR AMENDING DISCLOSURE REQUIREMENTS IN AASB 1060

11. While amendments to full IFRS Standards will often affect recognition and measurement requirements, this will not always be the case. For example, as the IASB progresses with its Disclosure Initiatives project, more amendments are likely to affect only disclosure requirements. This is because the objective of the Disclosure Initiatives project is to address the overall disclosure problems with IFRS Standards.
12. As the objective of AASB 1060 is to reduce disclosure burden, subject to the nature of the amendments made to full IFRS Standards by the IASB (and therefore Tier 1 Australian Accounting Standards), amendments to AASB 1060 may be needed. In staffs' view, if for example the amendments:
 - (a) affect terminology used in Tier 1 and this change is not made to AASB 1060, different terminology between tiers may exist, which could lead to different interpretations and applications between Tier 1 and Tier 2.
 - (b) clarify the application of existing Tier 1 disclosure requirements, the clarifications are likely to benefit entities preparing Tier 2 financial statements in compliance with AASB 1060 where similar disclosures are required.
 - (c) reduce or streamline existing Tier 1 disclosure requirements to reduce disclosure burden, the amendments are likely to also be beneficial for entities preparing Tier 2 financial statements in compliance with AASB 1060 where similar disclosures are required.
 - (d) introduce additional Tier 1 disclosure requirements, it is unlikely that these additional disclosures would be added to AASB 1060 unless the disclosures address a matter of public policy or are of particular relevance in the Australian environment.
13. On this basis, staff recommend amendments to paragraph 56 of the FP SSF (and paragraph 43 of the NFP SSF) to clarify the application of the principles to disclosure-only amendments made by the IASB to full IFRS Standards:

56	Based on the principles in paragraph 52, the AASB uses the following approach when considering whether to add to or amend disclosure requirements in AASB 1060 in relation to amendments made by the IASB to full IFRS Standards: <ol style="list-style-type: none">(a) if the amendments introduce significant recognition and measurement differences between full IFRS Standards and the IFRS for SMEs Standard, apply the principles applied by the IASB in developing the IFRS for SMEs Standard, as summarised in paragraph 53; and(b) if the amendments do not introduce significant recognition and measurement differences, no further action is required unless:<ol style="list-style-type: none">(i) the disclosures address a matter of public policy;(ii) or the disclosures are of particular relevance in the Australian environment; <u>or</u>(iii) <u>the amendments clarify or reduce existing disclosure requirements in full IFRS Standards.</u>
----	---

14. As staff recommend changes to both SSFs in paragraph 13 above, staff also recommend that paragraphs 57 and 58 (and the preceding heading) of the FP SSF and paragraphs 44 and 45 (and the preceding heading) of the NFP SSF be deleted. This is because these paragraphs contain principles relevant to determining RDR disclosure requirements and as RDR is superseded by AASB 1060 from 1 July 2021, these principles will no longer be required. These paragraphs are reproduced below:

Reduced disclosure requirements²¹

- 57 The Reduced Disclosure Requirements (RDR) framework for Tier 2 GPFS:
- (a) can be applied only by entities that are not publicly accountable; and
 - (b) comprises the recognition and measurement requirements of Australian Accounting Standards (the same as for Tier 1) but substantially reduced disclosure requirements, as set out in Australian Accounting Standards – Reduced Disclosure Requirements.
- 58 When considering whether disclosures should be retained or reduced for entities reporting under the RDR framework, the AASB refers to the ‘user need’ and ‘cost-benefit’ principles set out in the ‘Tier 2 Disclosure Principles’ document of the RDR decision-making framework. These principles are also based on the principles applied by the IASB in developing the disclosures in the *IFRS for SMEs Standard*, as summarised in paragraph 53.

21 The Reduced Disclosure Requirements framework for Tier 2 GPFS has been superseded by AASB 1060 for annual periods beginning on or after 1 July 2021, with earlier application permitted.

Question 1 to Board members:

Do Board members agree with the staff recommendation:

- (a) in paragraph 13 to amend both SSFs to clarify the application of the principles to disclosure-only amendments made by the IASB to full IFRS Standards? If not, what do Board members suggest?
- (b) in paragraph 14 to delete the principles relevant to determining RDR disclosure requirements from both SSFs? If not, what do Board members suggest?

Due process

15. Staff considered whether it is necessary to provide the Financial Reporting Council (FRC) with the opportunity to comment on the proposed amendments to both SSFs. Staff note that when both SSFs were updated in 2020, before their finalisation by the Board, they were provided to the FRC for any comments. This was because the purpose of both SSFs is to set out how the Board assesses the appropriateness of IFRS Standards in the Australian context, including the Australian not-for-profit context, and outlines criteria for when the Board may consider making modifications to IFRS Standards for for-profit and not-for-profit entities.³
16. This purpose is aligned with certain functions and powers of the FRC. For example, in accordance with section 225 of the *Australian Securities and Investments Commission Act 2001*, FRC functions include giving the Board advice or feedback on the Board’s procedures (s. 225(2)(b)). The FRC also has responsibility for promoting the continued adoption of international best practice accounting standards in the Australian accounting standard-setting processes, if doing so would be in the best interests of the Australian economy (s. 225(2)(g)). The FRC also has responsibility for monitoring the operation of accounting standards to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy (s. 225(2)(h)).
17. Staff note that when both SSFs were updated in 2020, both were subject to significant amendments and redrafting. As staff does not consider the amendments recommended in paragraphs 13 and 14 above to be significant, staff believe it is appropriate for the Board to finalise both SSFs without

³ Paragraph 4 of the FP SSF and NFP SSF.

circulating to the FRC for any comments. However, should the Board prefer to provide the FRC with an opportunity to comment, the next FRC meeting is in September 2021.

18. Agenda paper 15.2 considers the application of the draft principles to the recent amendments to full IFRS Standards (and Tier 1 by AASB 2021-2) noted in paragraphs 2 and 3 above. After applying the draft principles, staff recommend changes to AASB 1060 and the issue of an Exposure Draft. Staff highlight that should the Board prefer to provide the FRC with an opportunity to comment on the revised SSFs doing so would delay the issue of the Exposure Draft and related due process recommended by staff in Agenda Paper 15.2.

Question 2 to Board members:

- (a) Subject to Board member agreement with the staff recommendations in question 1, do Board members agree with the staff recommendation in paragraph 17 that it is appropriate to finalise both SSFs without circulating to the FRC for any comments? If not, what do Board members suggest?
- (b) Do Board members agree that no further due process is required prior to finalising the revised draft principles? If not, what do Board members suggest?