

Accounting update

14 June 2018



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At a glance

- ▶ The AASB has proposed to eliminate special purpose financial statements (SPFS) for entities required by legislation or otherwise to comply with AAS.
- ▶ Two tiers of general purpose financial statements (GPFS) to remain; Tier 1 for publicly accountable entities and Tier 2 for all other entities. Tier 2 would follow either existing reduced disclosure or be replaced by less (but specified) disclosures.
- ▶ The objective of the Consultation Paper is to maintain IFRS compliance for Tier 1 entities and, for Tier 2 entities, create consistent and comparable financial statements.
- ▶ Transitional relief will be provided for entities moving from SPFS to GPFS to alleviate the additional reporting burden.
- ▶ The AASB seeks your input on phase 1 by 9 August 2018 and on phase 2 by 9 November 2018.

AASB proposes two-phase approach in adopting IASB's revised conceptual framework

The AASB issued [Consultation Paper *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*](#) in May 2018. It addresses how the revised Conceptual Framework (revised IASB Framework) issued by the IASB in March 2018 may be adopted in Australia. In the short-term, the AASB proposes maintaining IFRS compliance for publicly accountable for-profit entities and those voluntarily reporting compliance with IFRS by adopting the revised IASB Framework.

It also proposes, in the medium-term, to maintain IFRS as a base for all other entities, with the revised IASB Framework applied to all entities required by legislation or otherwise to comply with Australian Accounting Standards (AAS).

This two-phase approach allows for further research and feedback on the definition of a 'reporting entity'. The term 'reporting entity' is currently used in Australia to define who should report GPFS, whereas internationally it is used by the IASB to determine the boundary of GPFS.

Phase 1 – short term approach

The AASB plans to adopt the revised IASB Framework for publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS in order for these entities to maintain their IFRS compliance.

In implementing this proposal, the AASB intends to revise the definition of public accountability, to align it with that used in the *IFRS for SMEs* Standard. Entities will no longer be able to determine they have no users dependent on GPFS.

Consequently, entities must prepare Tier 1 GPFS when:

- a. Their debt or equity instruments are traded in a public market (or they are in the process of issuing such instruments); or
- b. They hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

It is expected any amendment will be effective from 1 January 2020 in order to align with the effective date of the revised IASB Framework.

Phase 2 – medium-term approach

The IASB does not have the authority to determine which entities prepare GPFs, but instead relies on regulators of jurisdictions that adopt IFRS to specify which entities should prepare GPFs through legislation. The IASB is of the view that any entity required to prepare financial statements in accordance with IFRS is preparing GPFs.

This is in contrast to the application of the reporting entity concept in SAC 1 *Definition of the Reporting Entity* which only requires reporting entities (as self-assessed by preparers) to prepare GPFs.

The AASB agrees with the IASB and believes its role is to determine the appropriate accounting framework (and not leave it to preparers to decide) when entities are required to prepare financial statements “in accordance with AAS” whether through legislation or otherwise. This doesn’t just mean more disclosure but that the financial statements of a reporting entity should be consolidated financial statements, where required by AAS.

The AASB proposes to maintain the two tier framework in AASB 1053 *Application of Tiers of Australian Accounting Standards* although it is considering replacing the reduced disclosure requirements (RDR) with specified disclosure requirements (SDR).

Alternative	Detailed
Alternative 1 – (existing) RDR	<ul style="list-style-type: none"> • Full recognition and measurement requirements • Reduced disclosure from each accounting standard, includes consolidation and equity accounting where applicable.
Alternative 2 – SDR	<ul style="list-style-type: none"> • Full recognition and measurement requirements • Specified disclosures from selected accounting standards, includes consolidation and equity accounting where appropriate.

SDR would require disclosures from only nine accounting standards, but in full. Proposed disclosures are: AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1054 *Australian Additional Disclosures* plus disclosures required by related party, revenue, impairment of assets and income tax Standards. The AASB is not committed to either of these models and is seeking feedback on what disclosures best meet users’ needs.

Adoption of the Phase 2 requirements is proposed from 2021, but only after an Exposure Draft is issued following this initial consultation. In addition, it is possible that implementation dates may be staggered for for-profits versus not-for-profit entities.

Who will be impacted by the Consultation Paper?

Any entity required to comply with AAS that has previously self-assessed itself to be a non-reporting entity (and is currently preparing SPFS) will be most impacted. The level of impact will vary depending on:

- ▶ Accounting policies adopted – are your policies currently compliant with all recognition and measurement requirements of AAS?

- ▶ The boundary of your financial statements – are consolidated accounts being prepared? Is the entity the ultimate Australian parent within a Group?
- ▶ Disclosures currently provided – which disclosures are not being provided?

How we see it

This Consultation Paper represents one of the most significant changes to the Australian financial reporting landscape since the adoption of IFRS. Entities affected should use this opportunity to provide feedback to the AASB.

Australia is unique in giving preparers the ability to self-assess the basis of preparation. The removal of the reporting entity concept as we know it and hence the use of SPFS will change for those where legislation, constitutional documents, grant acquittals or otherwise require preparation of financial statements “in accordance with AAS”.

Entities should consider what drives their need for reporting as trustees/directors/those charged with governance may want to reconsider the basis of preparation in their trust deeds or other constitutional documents in order to avoid falling within the proposed changes.

Action required

The AASB has requested feedback and we encourage everyone to consider providing feedback on the proposals. Feedback on phase 1 is due by 9 August 2018 and on phase 2 by 9 November 2018.

To discuss further please contact your EY adviser or one of the IFRS Services from Ernst and Young Australia contacts below:

Oceania Frank Palmer EY Oceania IFRS Leader Tel: +61 2 8265 6264	Adelaide Alison Dobbie Director Tel: +61 8 8417 1561
Brisbane Kelly McKenzie Partner Tel: +61 7 3243 3643	Canberra Ben Tansley Partner Tel: +61 2 6267 3933
Melbourne Vincent Sheehan Partner Tel: +61 3 9655 2941	Melbourne Tracey Waring Partner Tel: +61 3 9288 8638
Perth John Virgo Partner Tel: +61 8 9429 2206	Sydney Melissa Sim Partner Tel: + 61 2 9276 9965

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