The time is coming

Think about the now, the next and what lies beyond – Australian financial reporting

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Will changes to Australia's financial reporting meet the needs of our economy?

Just as a town planner revises designs, with the hope of making improvements to their building requirements, the AASB is making changes to the financial reporting framework in Australia. These changes would amend the differential reporting framework, in the first instance for for-profit entities, that has been part of the Australian reporting framework for many years. Will the revised framework meet the needs of the Australian economy? A myriad of proposed changes have arrived – somewhat driven by the IASB amendments to the conceptual framework. You should start thinking about the now, the next and what lies beyond for your circumstances. Thought-provoking questions have arisen which we encourage you to contemplate with audit committees, boards and other stakeholders.

The AASB has adopted the revised *Conceptual Framework for Financial Reporting* (RCF) for the for-profit private sector Tier 1 entities but there are several other proposals already in circulation or still in the pipeline. The below timeline depicts the expected application dates of the AASB projects relating to the changes in Australia's financial reporting framework.

For-profit private sector entities will want to contribute to this discussion

The Now

The AASB has adopted the RCF in conjunction with an amending standard (AASB 2019-1). The RCF is applicable for for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards (AAS) and any other for-profit entity that elects to apply the RCF. The standard has an effective date for annual periods beginning on or after 1 January 2020.

Impacts are expected to be minimal since the purpose is for entities to remain IFRS compliant. For entities that have developed a specific accounting policy based on the principles of the former conceptual framework, there may be impacts.

Will the adoption of the revised conceptual framework impact you?

The Next

The AASB has issued three recent exposure drafts (EDs).

The comment periods for ED 295 and 297 are open until 30 November 2019 (ED 293 is now closed) with expected effective dates for annual periods beginning on or after 1 July 2020.

SPFS disclosures – 30 June 2020 (ED 293)

As an interim measure the AASB proposes to require entities preparing SPFS to make an explicit statement as to whether the accounting policies applied comply with all the recognition and measurement requirements in AAS. At the September 2019 board meeting, the AASB decided the additional disclosure will not apply to for-profit private sector entities preparing SPFS unless the proposals in SPFS (ED 297) are rejected.

It is expected the proposals will apply to not-for-profit entities required by legislation to comply with AASB 1054 Australian Additional Disclosures. The proposals are expected to apply to annual reporting periods ending on or after 30 June 2020.

Simplified Disclosures – 30 June 2021 (ED 295)

In conjunction with the removal of SPFS, a new Simplified Disclosure Standard (SDS) has been proposed to replace the current Reduced Disclosure Regime (RDR) for Tier 2 entities. There is recognition from the standard setting and corporate community that the costs of RDR outweigh the benefits. The new disclosure standard aims to reduce the reporting burden and maximizes the use of IFRS based materials by choosing disclosures based on the IFRS for SMEs standard. The standard will provide a new set of disclosures for General Purpose Financial Statements (GPFS) Tier 2 entities.

The key features of the new SDS are:

- New disclosure framework that will apply to all Tier 2 entities, including all those previously complying with RDR and those to be captured by ED 297
- It will result in a separate standard bringing together all the required disclosures for Tier 2 entities, as opposed to disclosures being included in each standard
- It has been developed based on the IFRS for SMEs standard with some modifications largely to account for differences in recognition and measurement requirements between full IFRS and IFRS for SMEs
- Disclosures will overall be less than RDR but more than most SPFSs with respect to financial instruments, interests in other entities and leases

> When new standards (e.g., leases) are implemented before being considered in IFRS for SMEs, the AASB will "step ahead" to consider disclosures to include in SDS.
>
> The Board has exercised a number of judgements when developing the SDS. There is a risk that, over time, the SDS will move away from the guiding principles used to develop IFRS for SMEs.

Removal of SPFS – 30 June 2021 (ED 297)

The AASB is proposing to remove the ability for entities to self-assess their financial reporting requirements and prepare SPFS. The AASB believes its role is to determine the appropriate accounting framework (and not leave it to preparers to decide) when entities should prepare financial statements in accordance with AAS. It believes the benefits are more consistency, comparability and transparency in financial reporting. The impact isn't just more disclosure but may be that financial statements are to be consolidated, if there are no exemptions available in AASB 10.

The new proposals apply to:

- For-profit private sector entities that are required by legislation to prepare financial statements (FS) that comply with either "AAS or accounting standards"

> It is probable that many wholly-owned subsidiaries will be impacted by having to move from SPFS to GPFS, as these types of entities were most likely to have self-assessed as being non-reporting entities.

- Other for-profit private sector entities that are required by their constituting or another document (i.e. lending agreement) to prepare FS in accordance with AAS, but only if the document is created (or amended) on or after 1 July 2020. If the constitution or other document simply refers to "accounting standards" then these proposals do not apply

These entities will be required to prepare GPFS, either Tier 1 or Tier 2. Tier 2 reporting requirements will continue to require compliance with all recognition and measurement requirements, including consolidation. However, as outlined above, there are proposals to amend the current reduced disclosures under Tier 2.

Where an entity has not previously complied with all recognition and measurement requirements of AAS, including consolidation, on transition the proposals provide:

- Relief from restating comparative information (i.e., additional disclosures won't require full comparatives)
- The date of transition will be the beginning of the reporting period

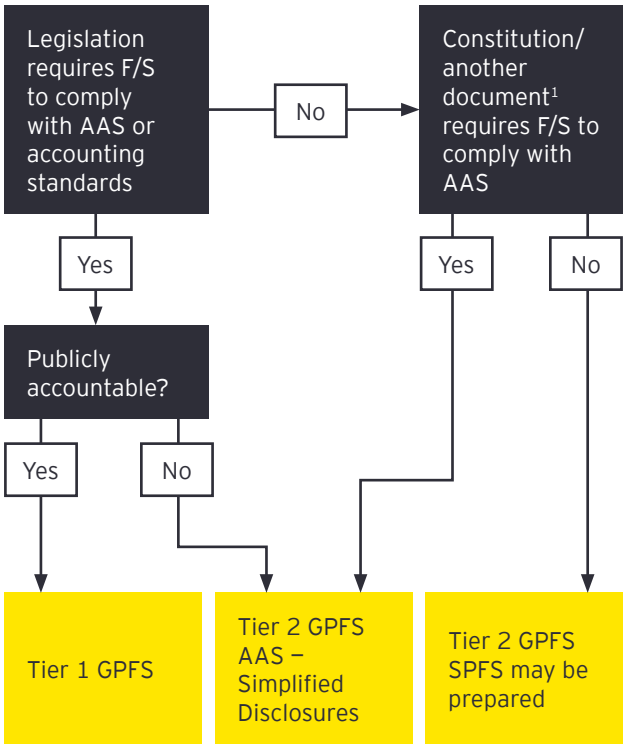
Do you have non-legislative requirements to prepare financial statements in accordance with AAS?
Entities should consider what drives the need for financial reporting.

- Trustees/directors/those charged with governance may want to reconsider the basis of preparation in their trust deeds or other documents
- Alternatively, be aware that amending documents (for any reason) after 30 June 2020, will trigger a mandatory requirement to prepare a GPFS where the basis of preparation refers to AAS

Do you comply with all recognition and measurement requirements of AAS, including consolidation?
Entities should consider:

- What are the areas of non-compliance?
- What relief is available on adoption?
- What systems and processes need to change?

Proposed for-profit private sector reporting framework



What lies beyond?

According to Walt Disney, "it's kind of fun to do the impossible."[2] Many thought that removing SPFS would be difficult and even impossible. There is a lot of work to do before these proposals are finalised, but even then the journey is not complete. The AASB is still to consider reforms in the not-for-profit and public sectors, in conjunction with government policy makers and regulators, and is also considering the definitions of public accountability and not-for-profit. The AASB is also encouraging the IASB to continue with its project for subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS with the disclosure requirements of IFRS for SMEs.

We encourage entities to actively participate in the developments of the Australian financial reporting framework.

Do you think the benefits outweigh the costs for moving away from RDR towards the new SDS?

For-profit subsidiaries may have to go through two changes: once when moving to SDS and again when the IASB finishes its subsidiaries for SMEs project.

To discuss further please contact your EY adviser or one of the IFRS Professional Practice from Ernst and Young Australia.

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1 Created or amended on or after 1 July 2020

2 https://www.brainyquote.com/quotes/walt_disney_100644

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