Basis for Conclusions on AASB 2019-1

This Basis for Conclusions accompanies, but is not part of, AASB 1057. The Basis for Conclusions was originally published with AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 The International Accounting Standards Board (IASB) issued a revised Conceptual Framework titled *Conceptual Framework for Financial Reporting* (the revised Conceptual Framework) in March 2018.

BC3 The Conceptual Framework describes the objective and concepts for general purpose financial reporting under International Financial Reporting Standards (IFRS Standards). Its purpose is to assist standard-setters to develop Standards that are based on consistent concepts, and to help preparers develop consistent accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows a choice of accounting policy. It also assists anyone looking to understand and interpret the Standards.

BC4 Making the IASB's revised Conceptual Framework applicable in Australia is essential. In accordance with the Financial Reporting Council's strategic direction to the Board and the Board's strategic objectives, the Board should:

(a) maintain compliance with IFRS Standards for publicly accountable entities; and

(b) use IFRS Standards as a base for determining the reporting requirements for all other entities, modified as appropriate, in accordance with the AASB's standard-setting frameworks for for-profit and not-for-profit entities.

BC5 Implementation of the revised Conceptual Framework in Australia is challenging due to the so-called 'reporting entity clash'. This reflects the difference between the definition of a 'reporting entity' in the IASB's revised Conceptual Framework and the current definition in Australian Accounting Standards (including Interpretations). The reporting entity definition in the revised Conceptual Framework determines the boundary of what needs to be reported when an entity is required to report, e.g. consolidation. The current reporting entity definition in Australian Accounting Standards determines whether an entity should prepare general purpose financial statements that comply with Australian Accounting Standards.

BC6 In applying the Board's normal practice of transaction neutrality based on IFRS Standards, the Board noted that resolving the reporting entity clash required removing the Australian definition of reporting entity. To do this would also remove the ability of an entity to conclude that it is not a reporting entity as currently defined, and so prevent it from preparing special purpose financial statements if it is required to prepare financial statements in accordance with Australian Accounting Standards.

BC7 The Board noted that having two conceptual frameworks in operation at the same time would introduce some complexity to Australian Accounting Standards, and is not desirable for a long period of time. Consequently, to implement the revised Conceptual Framework in the short term, the Board decided to follow a phased approach:

(a) Phase 1 – implement the revised Conceptual Framework for publicly accountable for-profit private sector entities so that they can maintain compliance with IFRS Standards. The Board noted that there may also be for-profit entities in the public sector that wish to maintain compliance with IFRS Standards. Phase 1 would permit these entities to adopt the revised Conceptual Framework on a voluntary basis; and

(b) Phase 2 – implement the revised Conceptual Framework for all other entities, and remove the ability for entities to prepare special purpose financial statements when they are required to prepare financial statements in accordance with Australian Accounting Standards.

BC8 The Board expected that implementing the revised Conceptual Framework for publicly accountable for-profit private sector entities would be straightforward as such entities were, in the Board's view, required by Australian Accounting Standards to prepare Tier 1 general purpose financial statements applying all of the accounting standards. As such the Board did not expect the reporting entity concept to be relevant to them.

BC9 The phased approach would also provide the Board with more time to develop additional Australian-specific paragraphs for the revised Conceptual Framework in respect of not-for-profit entities in the private and public sectors and for-profit public sector entities, as part of Phase 2.

Issue of ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*

BC10 The Board's proposals were exposed for public comment in May 2018 as part of Invitation to Comment ITC 39 *Consultation Paper – Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*. In developing the proposals in ITC 39, the Board considered the findings of various research projects it had initiated. This included AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* (June 2014) and AASB Research Report No. 6 *Financial Reporting Requirements Applicable to Public Sector Entities* (May 2018).

BC11 ITC 39 considered five alternatives for implementing the revised Conceptual Framework in Australia:

(a) Option 1 – Adopt a two-phased approach to applying the revised Conceptual Framework. This option would implement the revised Conceptual Framework for for-profit publicly accountable entities and other entities voluntarily claiming compliance with IFRS Standards in Phase 1. It would then implement the revised Conceptual Framework for all other entities in Phase 2. Phase 2 would remove the Australian reporting entity concept and remove the ability of an entity to prepare special purpose financial statements as a non-reporting entity where they are required to comply with Australian Accounting Standards.

(b) Option 2 – Operate with two conceptual frameworks. This option would implement the revised Conceptual Framework for publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS Standards. It would also retain the *Framework for the Preparation and Presentation of Financial Statements* (the existing Conceptual Framework) for all other entities.

(c) Option 3 – Implement the revised Conceptual Framework for all entities when it first becomes applicable to maintain compliance with IFRS Standards and IFRS Standards as a base for Australian Accounting Standards. This option would remove the Australian reporting entity concept and the ability of an entity to prepare special purpose financial statements as a non-reporting entity where they are required to comply with Australian Accounting Standards from 1 January 2020.

(d) Option 4 – Retain the existing Conceptual Framework, the Australian reporting entity concept and the ability of an entity to prepare special purpose financial statements as a non-reporting entity where they are required to comply with Australian Accounting Standards. Under this option, compliance with Australian Accounting Standards might not result in compliance with IFRS Standards after 1 January 2020.

(e) Option 5 – Implement the revised Conceptual Framework from 1 January 2020 when it first becomes applicable to maintain compliance with IFRS Standards and IFRS Standards as a base for Australian Accounting Standards. Under Option 5, the Australian reporting entity concept would be retained but the name amended and minimum requirements for special purpose financial statements would be prescribed by the Board.

BC12 The Board considered the benefits of and barriers to each of these options, and supported Option 1 as its preferred approach. Option 1 is the Board's preferred approach because it:

(a) allows for-profit entities with public accountability and entities that voluntarily report compliance with IFRS Standards to continue to do so;

(b) allows all other entities to continue preparing special purpose financial statements in the short term while the Board undertakes consultation and outreach activities and determines the appropriate Tier 2 general purpose financial statements framework to replace special purpose financial statements;

(c) maintains IFRS Standards as a base for all entities in the medium term;

(d) solves the reporting entity problem in the medium term;

(e) solves the special purpose financial statements problem in the medium term;

(f) allows time for the Board to consult and determine any not-for-profit modifications that may be necessary to the revised Conceptual Framework in accordance with The AASB's Not-for-Profit Entity Standard-Setting Framework; and

(g) facilitates comparability and ensures there are appropriate accounting standards for each type of entity required to comply with Australian Accounting Standards.

BC13 ITC 39 noted the importance of maintaining compliance with IFRS Standards for certain entities in Australia. As Australian Accounting Standards incorporate IFRS Standards, compliance with Australian Accounting Standards (Tier 1) results in compliance with IFRS Standards for for-profit entities. Compliance with Australian Accounting Standards is often required by legislation.

BC14 When deciding that Phase 1 should be limited to for-profit entities with public accountability, the Board reconfirmed the importance of the definition of public accountability included in *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*). Internationally, entities with public accountability must apply the full IFRS Standards, rather than the *IFRS for SMEs*. Therefore the Board reconfirmed its view that for-profit entities in Australia with public accountability (as defined) should be required to prepare Tier 1 general purpose financial statements. Due to the importance of the *IFRS for SMEs* definition of public accountability, the Board decided that the IASB's amendments to the definition of public accountability should be reflected in the definition included in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Stakeholder engagement

BC15 After issuing ITC 39, the Board held targeted outreach with key stakeholders, including State, Territory and national regulators, audit offices, accounting firms, the Australian Securities Exchange (ASX), the Australian Securities and Investments Commission (ASIC), credit rating agencies and professional bodies. The ITC 39 proposals were also presented at various forums, workshops and discussion groups.

BC16 The Board received feedback on its proposals through 24 formal comment letters on ITC 39. The Board also obtained feedback via means such as emails, meetings with constituents and feedback from external presentations. The responses to ITC 39 indicated that:

(a) on balance, the majority of the respondents were supportive of the proposals in Phase 1 and the need to issue the revised Conceptual Framework in Australia prior to 1 January 2020 so that entities with public accountability could continue to maintain compliance with IFRS Standards;

(b) there are a number of entities that may be affected by Phase 1 and the reporting entity clash of which the Board was unaware when developing ITC 39;

(c) maintaining two conceptual frameworks was not without its complexities; and

(d) mandatory application of the revised Conceptual Framework in Phase 1 should be limited to for-profit private sector entities with public accountability that are required by legislation to prepare financial statements that comply with Australian Accounting Standards.

BC17 The Board considered these issues as well as a range of other issues identified by constituents in developing this Standard following the ITC 39 exposure process. The significant issues are addressed in the following section.

Public accountability

BC18 Respondents to ITC 39 identified a number of types of entities that may be affected by Phase 1 as they may have public accountability but currently are preparing special purpose financial statements. Respondents also indicated that additional guidance would be useful to assist them in determining whether an entity meets the definition of 'public accountability'.

BC19 Due to the importance of the definition of publicly accountability in Australia, the Board decided to amend the definition in AASB 1053 to align with the revised definition per the IFRS for SMEs when the revised Conceptual Framework is issued. The revised definition confirms that an entity has publicly accountability if it has debt or equity instruments that are traded in a public market or it is in the process of issuing such instruments for trading in a public market. An entity also has public accountability if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

BC20 The Board decided that further guidance on these matters, as well as a number of other aspects of the public accountability definition, should be addressed through a public accountability sub-project. This sub-project will consider, in accordance with The AASB's For-Profit Entity Standard-Setting Framework, whether there should be any changes to the types of entities that are deemed to have public accountability (an Australian decision), whether exemptions from the public accountability definition would be in the Australian public interest and whether additional guidance should be included to assist in interpreting the public accountability definition in an Australian context.

Significant issues

Scope

Entities that may be affected by Phase 1

BC21 Entities identified by respondents as potentially being affected by Phase 1 included unlisted entities that may be operating in over-the-counter markets (e.g. securitisation trusts), small internally held registered managed investment schemes, certain public sector trust entities, companies raising crowd-sourced equity funding and corporate collective investment vehicles.

Securitisation trusts

BC22 Securitisation trusts are listed, unquoted special purpose vehicles structured through a trust, established to facilitate the issue of asset-backed securities. Securitisation trusts are themselves unlisted, however they issue debt instruments which are listed on the ASX and/or another securities exchange. They have no legislative requirement to prepare financial statements. Their financial reporting obligations are governed by their trust deed and ASX listing rules, and they may be preparing special purpose financial statements if they have determined in accordance with SAC 1 *Definition of the Reporting Entity* that there are no external users dependent on their general purpose financial statements.

BC23 Securitisation trusts undertake over-the-counter (i.e. unquoted) transactions, and while the trustee (a third party) is responsible for maintaining the register of investors, investment is often made via custodian entities, making the ultimate holder of asset-backed securities difficult to identify.

BC24 Respondents to ITC 39 sought clarification regarding whether securitisation trusts were considered to have public accountability. For the Board to determine whether or not securitisation trusts are publicly accountable would require an interpretation of facts and circumstances. Further, the matter would need to be assessed against the principles of the *Interpretations and Improvements Model*. The *Interpretations and Improvements Model* states that issues relating to the interpretation of IFRS Standards would be referred to the International Financial Reporting Interpretations Committee (IFRIC) for its consideration. However, prior to this, the Board needed to assess the issue against specific criteria, the first of which is whether the issue is widespread and has practical relevance. As there were only 126 securitisation trusts listed on the ASX (in August 2018), the issue was not considered widespread and therefore would not meet the requirements of the *Interpretations and Improvements Model*. The Board also noted that its decision to limit the scope of Phase 1 to entities required by legislation to prepare financial statements would mean that these trusts would be considered as part of Phase 2.

Small internally held registered managed investment schemes (MIS)

BC25 Some internal registered MIS are currently preparing special purpose financial statements to satisfy the reporting requirements of the *Corporations Act 2001* as they have determined in accordance with SAC 1 that there are no external users of their financial statements. These internal registered MIS only accept investments from other entities within their group, however they are required to be registered under the *Corporations Act 2001*. Appendix B of AASB 1053 deems registered MIS to have public accountability.

BC26 When the Board developed its approach to differential reporting, registered MIS were deemed to be publicly accountable in the Australian context as a means of clarifying the IASB definition of public accountability. At the time, registered MIS were seen as being the Australian equivalents of mutual funds in other jurisdictions as they were expected to hold assets in a fiduciary capacity for a broad group of outsiders. However, due to the nature of these internal registered MIS, it is possible that they may not have public accountability as defined, as they may not hold assets in a fiduciary capacity for a broad group of outsiders. The question of whether all registered MIS should continue to be deemed to have public accountability will be revisited as part of the public accountability sub-project.

Unlisted trusts maintained by State Governments

BC27 Respondents also identified that some State Governments have established unlisted investment trusts under State legislation to hold investments in various types of assets, such as infrastructure. Some investments are held in partnership or joint venture with external parties, such as superannuation funds. These trusts are for-profit public sector entities. They do not have a legislative requirement to prepare financial statements, with their financial reporting obligations directed by their Trust Deed.

BC28 These trusts are currently preparing special purpose financial statements on the basis that they are not reporting entities. However, as they are holding assets in a fiduciary capacity, they may be considered to have public accountability under the definition in the *IFRS for SMEs*. The Board noted that its decision to limit the scope of Phase 1 to entities required by legislation to prepare financial statements would mean that these trusts would be considered as part of Phase 2.

Legislation versus constituting documents

BC29 Respondents to ITC 39 identified some entities that may be affected by the amendments proposed in Phase 1, including trusts that are required by their constitutional document (rather than legislation) to prepare financial statements that comply with Australian Accounting Standards. They do not have any legislative requirement to prepare such financial statements and may be preparing special purpose financial statements. This includes securitisation trusts and certain public sector trusts.

BC30 The Board noted that while changing constitutional documents is possible, it can be onerous and if not done correctly can have tax consequences. Many trust deeds may have template wording referring to compliance with Australian Accounting Standards without the trustees or the beneficiaries having considered whether this would need to involve the preparation of general purpose financial statements. Based on feedback obtained from targeted outreach activities, these trusts may provide detailed information to their beneficiaries about their financial performance and position on a regular basis.

BC31 *The AASB's For-Profit Entity Standard-Setting Framework* requires publicly accountable for-profit entities to prepare Tier 1 general purpose financial statements on the basis that these entities would need to state compliance with IFRS Standards. However, entities that do not have any legislative requirement to prepare financial statements and are required only by their constitution or trust deed to comply with Australian Accounting Standards often will not need to confirm compliance with IFRS Standards.

BC32 *The AASB's For-Profit Entity Standard-Setting Framework* further notes that publicly accountable entities should prepare Tier 1 general purpose financial statements as these types of entities would have a significant impact on the Australian economy and therefore should be subject to the highest level of accountability. However, where entities are required to comply with Australian Accounting Standards only as a result of their constitution or trust deed, and their members have in the past been comfortable with the amount of information provided in the form of special purpose financial statements, the Board did not consider it appropriate to mandate the preparation of Tier 1 general purpose financial statements for such entities as part of Phase 1.

BC33 Consequently, Phase 1 is intended to allow entities to maintain compliance with IFRS Standards, not to extend requirements for entities to prepare general purpose financial statements if they are not currently required by legislation to prepare financial statements. To ensure that Phase 1 did not unintentionally require such entities to prepare general purpose financial statements, the Board decided to limit Phase 1 to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards. This ensures the reporting requirements of entities with public accountability that do not have a legislative requirement to prepare financial statements will not be affected by Phase 1. The appropriateness of this limitation will however be reconsidered as part of Phase 2 after further research and outreach. The Board also confirmed that those for-profit entities wanting to voluntarily comply with Tier 1 and IFRS Standards should be permitted to do so, including for-profit entities in the public sector.

Maintaining two conceptual frameworks

BC34 When deciding how to implement Option 1 for Phase 1, the Board considered the following alternatives:

	Option 1	Option 2	Option 3	Option 4
	Two conceptual frameworks:	One conceptual framework:	Two conceptual frameworks:	One conceptual framework:
Entities applying the revised Conceptual Framework:	1 Revised Conceptual Framework.	1(a) Revised Conceptual Framework.	1 Revised Conceptual Framework.	1(a) Revised Conceptual Framework.

	Option 1	Option 2	Option 3	Option 4
	Two conceptual frameworks:	One conceptual framework:	Two conceptual frameworks:	One conceptual framework:
Other entities:	2 Existing Conceptual Framework and SAC 1[1].	1(b) Revised Conceptual Framework minus Chapter 3[2], which is replaced by SAC 1.	2 Existing Conceptual Framework and SAC 1.	1(b) Revised Conceptual Framework minus Chapter 3, which is replaced by SAC 1.
Consequential amendments:	One set of Australian Accounting Standards that continue to be updated for both for-profit and not-for-profit changes.	One set of Australian Accounting Standards that continue to be updated for both for-profit and not-for-profit changes.	Two sets of Australian Accounting Standards. - One set that continues to be updated for for-profit changes. - One set reflecting the requirements in effect immediately prior to the revised Conceptual Framework being issued which are not updated.	Up to two sets of Australian Accounting Standards.
The reporting entity clash	Addressed in Phase 1, by inserting paragraph AusCF1 into each Australian Accounting Standard that contains the term reporting entity. Paragraph AusCF1 would direct other entities to AASB 1057[3] (and SAC 1) for the definition of the term reporting entity.	Addressed in Phase 1, by inserting paragraph AusCF1 into each Australian Accounting Standard that contains the term reporting entity. Paragraph AusCF1 would direct other entities to AASB 1057 (and SAC 1) for the definition of the term reporting entity.	Tolerated in Phase 1. That is, unlike in Option 1, it would not be addressed via an AusCF1 paragraph.	Tolerated in Phase 1. That is, unlike in Option 2, it would not be addressed via an AusCF1 paragraph.

BC35 If Option 1 was adopted, it would result in two conceptual frameworks. The revised Conceptual Framework would be applied by for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards. Other for-profit entities could elect to apply the revised Conceptual Framework voluntarily. All other entities would continue to apply the existing Conceptual Framework. To operate two conceptual frameworks with only one set of Australian Accounting Standards (including Interpretations), the basic text of each Australian Accounting Standard would be updated for consistency with the IASB's consequential amendments. The existing, pre-amendment text would also be retained, with the paragraph or footnote given an 'AusCF' prefix. Australian Accounting Standards that do not have an equivalent IFRS Standard and future consequential amendments would be addressed in the same way. To address the reporting entity clash, entities applying the revised Conceptual Framework would no longer apply the reporting entity concept in SAC 1. Instead, these entities would refer to Chapter 3 of the revised Conceptual Framework to determine what the term reporting entity means for them. Entities applying

1 Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*
2 Chapter 3 Financial Statements and the Reporting Entity
3 AASB 1057 *Application of Australian Accounting Standards*

the existing Conceptual Framework would continue referring to the reporting entity definition in AASB 1057 and SAC 1.

BC36 If Option 2 was adopted, it would result in the revised Conceptual Framework being applied either in full or in part by all entities. For-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards would adopt the revised Conceptual Framework in full. Other for-profit entities could also elect to do so voluntarily. All other entities would apply the revised Conceptual Framework, except for Chapter 3. Instead, these entities would refer to SAC 1 for the definition of the term reporting entity. This would address the reporting entity clash.

BC37 Option 3 is similar to Option 1 as it would result in two conceptual frameworks, however unlike Option 1, Option 3 would result in two sets of Australian Accounting Standards. One set would be amended for entities adopting the revised Conceptual Framework. The second set would be frozen at the date the revised Conceptual Framework was issued, and would be applied by entities continuing to apply the existing Conceptual Framework. Option 3 would not address the reporting entity clash.

BC38 Option 4 is similar to Option 2, as it would result in a single conceptual framework, however similarly to Option 3, it would result in up to two sets of Australian Accounting Standards. Option 4, like Option 3, would not address the reporting entity clash.

BC39 While Option 1 results in there being two conceptual frameworks in operation for a period of time and does not resolve the reporting entity clash in the immediate term, the Board decided that it was the most appropriate Phase 1 approach for the following reasons:

(a) the application of the two conceptual frameworks is clearly defined and is less likely to cause confusion for constituents;

(b) Option 1 would address the reporting entity clash in the medium term;

(c) Option 1 would be more straightforward to unwind when implementing Phase 2;

(d) the revised Conceptual Framework contains new recognition and measurement requirements for assets, liabilities, income and expenses. Unless an entity is applying the revised Conceptual Framework, it is not required to adopt those revised recognition and measurement requirements until Phase 2 is implemented. That is, for entities applying the existing Conceptual Framework, the existing Conceptual Framework and the related references in Australian Accounting Standards are effectively frozen; and

(e) there is no need to consider whether other aspects of the revised Conceptual Framework need to be amended to accommodate retaining SAC 1, which includes the Australian definition of the term reporting entity.

BC40 While Option 2 would result in a single conceptual framework, and would address the reporting entity clash, the Board decided that Option 2 was more likely to create confusion amongst constituents. This is because under Option 2 it is less clear which elements of the revised Conceptual Framework would apply to certain entities and which would not. Also, other entities would be required to apply the new recognition and measurement requirements in the revised Conceptual Framework in circumstances where an Australian Accounting Standard (or Interpretation) did not address an issue. In addition, extensive work would be required to review all aspects of the revised Conceptual Framework to determine what other changes would be necessary to accommodate retaining SAC 1 and the Australian definition of the term reporting entity.

BC41 The Board did not consider Option 3 or Option 4 to be viable, as both options would result in two sets of Australian Accounting Standards, which would be complex to manage (for example future compilations) and would present a much greater level of confusion for stakeholders in knowing which set of Australian Accounting Standards they should use. The existence of two sets of Australian Accounting Standards would also be challenging when implementing Phase 2.

Phase 1 approach

BC42 Implementation of Option 1 in Phase 1 requires identification of all references to the existing Conceptual Framework in each Australian pronouncement and all references to the term reporting entity.

BC43 Implementation of two conceptual frameworks and one set of Australian Accounting Standards requires all references to the existing Conceptual Framework to be updated as references to the revised Conceptual Framework, with limited exceptions, for those entities applying the revised Conceptual Framework. For all entities that are not applying the revised Conceptual Framework, references to the existing Conceptual Framework need to be retained.

BC44 The Board determined the most effective way to achieve this required:

(a) updating the basic text of all Australian Accounting Standards to reflect the IASB's amendments consequential to the revised Conceptual Framework, that is, all references to the existing Conceptual Framework were replaced with a reference to the revised Conceptual Framework, with limited exceptions. The basic text of all Australian Accounting Standards applies to entities applying the revised Conceptual Framework. This ensures that compliance with Australian Accounting Standards (Tier 1) by these entities continues to result in compliance with IFRS Standards;

(b) adding an AusCF paragraph or footnote in each Australian Accounting Standard that was updated per paragraph (a). The AusCF paragraph or footnote retained the same number, but was given an AusCF prefix. AusCF paragraphs retained the references to the existing Conceptual Framework and are applicable only to entities applying the existing Conceptual Framework; and

(c) inserting an AusCF1 paragraph into each Australian Accounting Standard that contained a reference to the existing Conceptual Framework or contained the term 'reporting entity'. Two versions of paragraph AusCF1 were used:

(i) one version states that the requirements of the AusCF paragraphs and footnotes added to the Standard apply only to those entities that are applying the existing Conceptual Framework. It also directs entities applying the existing Conceptual Framework to AASB 1057 and SAC 1 for the definition of the term 'reporting entity'; and

(ii) a second version is used where no other AusCF paragraphs or footnotes were added to the Standard but the Standard contains the term 'reporting entity'. This version merely directs entities applying the existing Conceptual Framework to AASB 1057 and SAC 1 for the definition of the term 'reporting entity'.

BC45 To maintain IFRS compliance, there are some instances where it is not necessary or not appropriate to update a reference to the existing Conceptual Framework to a reference to the revised Conceptual Framework (these references were not updated in the consequential amendments made by the IASB to IFRS Standards). These include:

(a) references to the existing Conceptual Framework in AASB 3 *Business Combinations* (paragraph 11), AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 54G) in relation to developing accounting policies for regulatory balances, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (paragraph 10) and AASB 138 *Intangible Assets* (paragraph 8) continue to use the definition of a liability and an asset contained in the existing Conceptual Framework;

(b) an existing Conceptual Framework reference that presents the definition of an asset, liability, income or expense in its requirements, so that updating the reference may potentially change the accounting consequences of the Australian Accounting Standard. In these cases, the Australian Accounting Standard will continue to refer to the existing Conceptual Framework for the relevant definition; and

(c) references to the existing Conceptual Framework in Interpretations, which the IASB amended to refer to the Conceptual Framework in effect when the Interpretation was developed. Consequently, the Board also amended the references to the existing Conceptual Framework in its Australian Interpretations to refer to the Conceptual Framework in effect when the Interpretation was developed.

References to the existing Conceptual Framework that are historical (ie fixed in time) rather than required to update automatically for subsequent versions of the Conceptual Framework do not include the reference to identification in accordance with AASB 1048 *Interpretation of Standards*. Such a reference to AASB 1048 would automatically update the reference to the Conceptual Framework when a new version of the Conceptual Framework is listed in AASB 1048. Most references to the existing and revised Conceptual Frameworks therefore include the AASB 1048 reference.

BC46 Existing Conceptual Framework references contained in requirements specific to not-for-profit entities were also not updated. Although amendments will be made to the revised Conceptual Framework for not-for-profit entities in due course, they have not yet been considered as the adoption of the revised Conceptual Framework in Phase 1 is limited to for-profit entities.

BC47 Based on feedback received on ITC 39, the Board noted that AASB 1053 paragraph 11 regarding the application of Tier 1 reporting requirements is not operating as intended to require entities with public accountability to prepare general purpose financial statements. The Board determined that the amended requirement would be limited to those entities scoped into Phase 1 to avoid unintended consequences.

Public sector entities

BC48 The definition of public accountability in *IFRS for SMEs* was developed by the IASB for for-profit private sector entities. When discussing AASB 1053, the Board considered whether the definition of public accountability should also be applied to public sector entities. However, the Board decided against this for the following reasons:

> The Board concluded that, consistent with the role of other regulators under the revised differential reporting framework (see paragraphs BC40-BC41), the determination of the Tiers of reporting requirements under which for-profit public sector entities should report would best be left to relevant public sector regulators in each jurisdiction. (AASB 1053, paragraph BC38).

The Board did not consider that there was any reason to revisit this decision.

BC49 When discussing the application of Phase 1 of ITC 39 to entities in the public sector, the Board did not intend to force any for-profit public sector entity to adopt the revised Conceptual Framework for periods beginning on or after 1 January 2020. The Phase 1 amendments are intended to allow for-profit public sector entities to apply the revised Conceptual Framework and continue stating compliance with IFRS Standards where they elect to do so.

BC50 For these reasons, the Board decided that Phase 1 should also apply to for-profit public sector entities that elect to apply the revised Conceptual Framework, in addition to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards.

BC51 The Board decided that it would pursue financial reporting reform in the public sector via consultation based on the AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector*, which was issued in June 2018.

Further consultation

BC52 In December 2017 and February, September and November 2018, the Board considered issues papers and drafts of the Standard which were published as Board agenda papers for the public. This gave stakeholders the opportunity to follow the project and to comment on the issues contemporaneously.

BC53 At its meeting in November 2018, the Board decided to finalise its decisions to address the issues raised by stakeholders. Whilst the substance of the Board's decisions is consistent with the proposals in ITC 39, the Board decided that the new approach to highlighting which entities apply which conceptual framework and to the scope restrictions warranted the issue of a limited-scope consultative document presenting the proposed consequential amendments to Australian Accounting Standards (including Interpretations) and other pronouncements. A fatal-flaw review version of the proposed amending Standard was issued for comment in January 2019.

BC54 The Board received four submissions on the fatal-flaw review version. The responses in general supported the issue of the amending Standard to finalise the Phase 1 consequential amendments alongside the issue of the revised Conceptual Framework, although one respondent preferred that two conceptual frameworks were both on issue for only a limited period of time and one preferred only one conceptual framework to be on issue. Some of the submissions raised matters of detail regarding the consequential amendments, which were addressed in finalising the amending Standard.