

Basis for Conclusions on AASB 2014-2

This Basis for Conclusions accompanies, but is not part of, AASB 1053. The Basis for Conclusions was originally published with AASB 2014-2 Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in the Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 In June 2012 the Board issued AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* incorporating the IASB Standard Annual Improvements to IFRSs 2009–2011 Cycle. The amendments AASB 2012-5 made to AASB 1 *First-time Adoption of Australian Accounting Standards* relate to an entity returning to Australian Accounting Standards that previously applied Australian Accounting Standards or IFRSs, but in its most recent previous annual financial statements did not include an explicit and unreserved statement of compliance with Australian Accounting Standards or IFRSs. Irrespective of whether AASB 1 has previously been applied, the amendments permit such an entity to apply AASB 1, or the option under AASB 1 to apply Australian Accounting Standards retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying Australian Accounting Standards or IFRSs. Additional disclosure requirements were also specified in the amendments.
- BC3 At its May 2013 meeting the Board noted that these AASB 1 amendments have implications for AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010). Accordingly, the Board decided to clarify some of the existing requirements in, and propose introducing new requirements into, AASB 1053 (June 2010).
- BC4 Subsequently, the Board issued Exposure Draft (ED) 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements* in March 2014 for comment by 19 May 2014. Two written submissions were received. One submission expressed concern about the loss of reconciliation information that would result from the proposals (see paragraph BC20 below). The other submission expressed concern about the complexity of the proposals (see paragraph BC5 below).
- BC5 In relation to the latter concern, the respondent did not support certain aspects of the proposals in ED 248 and recommended simplifying the transition rules such that AASB 1 is always required to be applied when an entity transitions from special purpose financial statements (SPFSs) to Tier 2 general purpose financial statements (GPFSSs), even if the entity previously applied applicable recognition and measurement requirements. Moreover, the respondent suggested simplifying the transition rules such that AASB 1 is always required to be applied when an entity transitions to Tier 1 GPFSSs, even if the entity does not intend to comply with IFRSs.
- BC6 The Board considered that while the respondent’s suggestions might simplify requirements by increasing the number of scenarios where AASB 1 would be required to be applied, the consideration and application of AASB 1 would not necessarily be a simplification for particular entities.
- BC7 Accordingly, the Board decided not to make any substantive changes to the proposals in ED 248 when progressing to the final Standard AASB 2014-2, the basis for which is explained in paragraphs BC8-BC25 below.

Clarification of the Application of AASB 1053

- BC8 The Board noted that paragraphs 13 and 15 of AASB 1053 (June 2010) might be read by some as implying that SPFSs of non-reporting entities must be prepared in accordance with Tier 2 reporting requirements.
- BC9 The Board decided to amend paragraphs 13 and 15 of AASB 1053 to clarify that Tier 2 reporting requirements only relate to GPFSSs.

Reapplication of Tier 1 Reporting Requirements that does not entail Transition from Tier 2

- BC10 The Board noted that amendments made to AASB 1 in June 2012 by AASB 2012-5, referred to in paragraph BC2 above, introduced an option for entities returning to Australian Accounting Standards or IFRSs. An entity can either:
- (a) apply AASB 1 (including all of its disclosure requirements); or
 - (b) apply Australian Accounting Standards¹ retrospectively in accordance with AASB 108 (as if the entity had never stopped applying Australian Accounting Standards or IFRSs), with some associated disclosures.
- BC11 The Board noted that AASB 1 provides exceptions from applying some of the normal Tier 1 reporting requirements retrospectively on the basis that the cost of retrospectively applying some Tier 1 requirements would be likely to exceed the benefits to users of financial statements. However, the amendments made through AASB 2012-5 acknowledge that the costs of applying AASB 1 without recourse to the AASB 108 option in AASB 1 might exceed the benefits of doing so for an entity that had previously applied Tier 1 requirements. In particular, the AASB 2012-5 amendments allow an entity resuming the application of Tier 1 reporting requirements to do so using the more cost-beneficial approach. In applying the AASB 108 option in AASB 1, an entity would apply Tier 1 requirements retrospectively in accordance with AASB 108 as if the entity had never stopped applying Tier 1 requirements.
- BC12 However, the Board decided there should be a restriction in relation to the use of the AASB 1 option for retrospective application in accordance with AASB 108 in the Australian financial reporting environment. This arises because compliance with Tier 1 reporting requirements does not translate into compliance with IFRSs in all cases. For example, a not-for-profit entity applying AASB 1004 *Contributions* would apply recognition and measurement requirements that are different from those under IFRSs. Accordingly, the Board decided that an entity that is to claim IFRS compliance on resuming Tier 1 reporting requirements, but which was not previously IFRS compliant (i.e. it is effectively becoming IFRS compliant for the first time), would not be able to avail itself of the option in AASB 1 for retrospective application in accordance with AASB 108. Such an entity would apply AASB 1, without recourse to the AASB 108 option in AASB 1, on resuming Tier 1 reporting requirements.
- BC13 The Board observed that the effect of the AASB 2012-5 amendments might be regarded as not having been fully reflected in AASB 1053 at the time of making AASB 2012-5. In particular, some considered that AASB 1053 needed to be amended to make it clear that entities could apply Australian Accounting Standards retrospectively in accordance with AASB 108 in the circumstances described in paragraphs BC11-BC12 above. Accordingly, the Board concluded it should make the clarification by replacing paragraph 19 of AASB 1053 (June 2010) with paragraphs 19 and 19A.

Reapplication of Tier 2 Reporting Requirements that does not entail Transition from Tier 1

- BC14 The Board noted the previous prohibition in paragraph 19(a) of AASB 1053 for entities that had previously applied all applicable recognition and measurement requirements of Australian Accounting Standards from applying AASB 1 on first transition to Tier 2 reporting requirements. Consistent with this prohibition, the Board decided to clarify in paragraphs 19B and 20² of AASB 1053 that an entity that has applied Tier 2 reporting requirements in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with those requirements, and the entity continued to apply all applicable recognition and measurement requirements, should also be prohibited from applying AASB 1 (and the AASB 108 option in AASB 1), on resuming Tier 2 reporting requirements. This is consistent with the view that it would not be appropriate to imply, through application of AASB 1, that the basis of accounting has changed.
- BC15 The Board also decided to require entities returning to Tier 2 reporting requirements meet the disclosure requirements equivalent to those in paragraph 23A (and, where relevant, paragraph 23B) of AASB 1, which

¹ It is relevant to note that the term 'Australian Accounting Standards' encompasses both Tier 1 and Tier 2 requirements.

² Paragraph 20 of AASB 1053 (June 2010) clarified that first-time transitioning to Tier 1 reporting requirements from SPFSs that applied applicable recognition and measurement requirements of Australian Accounting Standards (including those of AASB 1, where relevant) would entail application of the full disclosure requirements of AASB 1. This clarification is no longer needed because paragraph 18 of AASB 1 is clear that Tier 1 reporting requirements would apply on first transition, irrespective of the degree of application of recognition and measurement requirements prior to transition.

would require an entity to disclose the reason it stopped applying Tier 2 requirements and the reason it is resuming reporting in accordance with those requirements (and the reasons it elected to use the AASB 108 option in AASB 1, where that election is available and adopted).³ The Board is of the view that these disclosure requirements provide users with useful information and the disclosures in paragraph 23A would discourage the intentional omission of the statement of compliance with Tier 2 reporting requirements solely to allow an entity to take advantage of the exemptions in AASB 1.

- BC16 The Board noted, however, that entities returning to Tier 2 reporting requirements in circumstances noted in paragraph BC14 above are prohibited from applying AASB 1 and, by extension, they would be exempted from the disclosures of paragraph 23A (and the disclosures in paragraph 23B would not be applicable). Accordingly, to provide relevant information to users, the Board concluded it should amend AASB 1053 to require the same disclosures as those in paragraph 23A of AASB 1 for entities resuming Tier 2 reporting requirements that are prohibited from applying AASB 1 and the AASB 108 option in AASB 1.

First-time Application of Tier 2 Reporting Requirements that does not entail Transition from Tier 1

- BC17 The Board is of the view that entities transitioning to Tier 2 reporting requirements from SPFSs for the first time should not be bound by AASB 1 for first-time application. In some cases it is envisaged that such entities might find application of Tier 2 reporting requirements retrospectively in accordance with AASB 108 more appropriate on cost-benefit grounds and should, therefore, be able to avail themselves of such a treatment. Accordingly, consistent with first-time adoption requirements that existed before AASB 1 was issued, the Board decided to amend AASB 1053 to permit entities transitioning from SPFSs to Tier 2 requirements for the first time to apply those requirements retrospectively in accordance with AASB 108 without going through AASB 1, when and only when an entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent SPFSs (see paragraph BC19 below). [In contrast, the Board decided that transition from SPFSs to Tier 1 reporting requirements for the first time should only be carried out using AASB 1, irrespective of whether an entity intends claiming IFRS compliance, consistent with the Board's IFRS adoption approach for Tier 1 entities.]
- BC18 The Board noted the rationale for the prohibition in paragraph 19(a) of the June 2010 version of AASB 1053 (see paragraph BC93 of AASB 1053 (June 2010)) for entities that had previously applied all applicable recognition and measurement requirements of Australian Accounting Standards from applying AASB 1 on first transition to Tier 2 reporting requirements. Consistent with this rationale, the Board decided to amend AASB 1053 to prohibit the same entities from applying Tier 2 reporting requirements through AASB 1, or retrospectively in accordance with AASB 108 on first transition to Tier 2 requirements. Those entities would continue to apply the applicable recognition and measurement requirements, whether they had previously initially applied recognition and measurement requirements consistent with AASB 1 or a predecessor to AASB 108, whichever was applicable at the time.
- BC19 The Board noted that in some cases entities would not have applied, or only selectively applied, applicable recognition and measurement requirements in preparing their most recent previous annual financial statements. Consistent with the rationale in paragraph BC89 of AASB 1053 (June 2010), the Board concluded that such entities should be treated differently from those that had applied all applicable recognition and measurement requirements in those financial statements. Accordingly, the Board decided that such entities would need to apply AASB 1, or, as explained in paragraph BC17 above, Tier 2 reporting requirements retrospectively in accordance with AASB 108, on first transition to Tier 2 reporting requirements.
- BC20 The Board noted the concern expressed by one respondent to ED 248 (see paragraph BC4 above) that allowing an entity to apply AASB 108 rather than AASB 1 in the circumstances proposed would mean that an entity making such an election would not be required to include the type of reconciliation of financial statements that would be required if AASB 1 were to be required to be adopted. The respondent regards the reconciliations as useful for in-depth understanding of an entity's financial statements and obtaining comparative information.
- BC21 The Board decided that the disclosure requirements in AASB 108 in relation to change of accounting policies provide adequate information to users to understand the nature and effect of changes arising from an entity applying Tier 2 requirements for the first time.

³ These disclosures would be in addition to any other disclosures required by other Standards (including comparative information in accordance with AASB 101 *Presentation of Financial Statements*).

Transition between Tiers

- BC22 The Board considered whether the requirements in AASB 1053 (June 2010) relating to transition between Tiers warranted clarification and concluded that paragraphs 21 and 23 of AASB 1053 are adequate. However, it decided to add a footnote to paragraph 21(a) to acknowledge that the AASB 108 option in AASB 1 would not be relevant if the transition from Tier 2 to Tier 1 is first-time adoption, rather than resumption, of Tier 1. For consistency, the Board also decided to amend paragraph 22, which provides guidance on paragraph 21(a).

Analysis of Disclosure Requirements for Tier 2 entities

- BC23 Consistent with paragraphs BC15 and BC16 above, the Board concurred with the view that applying paragraphs 23A and 23B of AASB 1 (which specify disclosures about the reasons for stopping and resuming or commencing the application of Australian Accounting Standards and the reasons for the accounting policies adopted to effect that resumption or commencement) would not entail material additional costs for Tier 2 entities. These paragraphs were introduced into AASB 1 by AASB 2012-5.
- BC24 Accordingly, the Board decided an entity that resumes the application of Tier 2 reporting requirements using the AASB 108 option in AASB 1 should not be exempt from complying with paragraphs 23A and 23B of AASB 1.
- BC25 The Board noted that paragraphs 23A and 23B of AASB 1 are not applicable to entities applying Tier 2 reporting requirements for the first time as these paragraphs are only relevant to reapplication of AASB 1.