

Basis for Conclusions on AASB 2021-1

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2021-1 Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities.

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 bases for 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 Board noted that not-for-profit (NFP) entities transitioning from either Tier 1: Australian Accounting Standards or Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR) and adopting Tier 2: Australian Accounting Standards – Simplified Disclosures (SD) early (ie for reporting periods beginning before 1 July 2021) would not be able to access the transitional relief that is available to for-profit private sector entities. For-profit private sector entities that transition between the Tier 2 frameworks by adopting Tier 2 SD early are provided optional relief from presenting comparative information in the notes to the financial statements if the entity did not previously disclose the comparable information in its most recent previous financial statements. This relief is set out in paragraph E4 of AASB 1053 *Application of Tiers of Australian Accounting Standards*. For-profit private sector entities that transition from Tier 1 to Tier 2 SD early are also provided with this same optional disclosure relief.

BC3 To address this difference, the Board decided to make a narrow-scope amendment to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to provide NFP entities with the same optional transition relief as for-profit entities when transitioning early from Tier 1 or Tier 2 RDR to Tier 2 SD.

Issue of Exposure Draft ED 306

BC4 The Board’s proposals with respect to the transition relief finalised in this Standard were exposed for public comment in December 2020 as part of Exposure Draft ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities*.

BC5 The significant issues considered by the Board in developing ED 306 are addressed in the following sections.

Scope

BC6 ED 306 proposed amendments to AASB 1060 to provide optional relief for NFP entities adopting AASB 1060 early from having to present comparative information in the notes to the financial statements where the entity did not previously disclose the comparable information in its most recent previous Tier 2 general purpose financial statements. The ED proposed this relief would be available for NFP entities transitioning from Tier 2 RDR to Tier 2 SD before the mandatory application date of AASB 1060.

BC7 In developing ED 306, the Board also considered whether to extend to NFP entities other relief available to for-profit private sector entities under AASB 1053 Appendix E. For example, paragraphs E5–E7 provide optional relief from restating comparative information to for-profit private sector entities that had not complied with all the recognition and measurement requirements of Australian Accounting Standards (including, if a parent entity, not presenting consolidated financial statements prepared in accordance with AASB 10 *Consolidated Financial Statements*) in their most recent previous special purpose financial statements (SPFS).

BC8 However, when finalising the previous amendments to AASB 1053, the Board decided not to extend any additional relief to NFP entities, as that could result in the loss of useful, restated comparative information. The Board also noted that it had decided to grant such relief to for-profit private sector entities due to the removal of the ability of such entities to prepare SPFS, which does not apply to NFP entities. Transition by

NFP entities from SPFS to general purpose financial statements will be considered in more detail by the Board in its deliberations on the Board's separate NFP Private Sector Financial Reporting Framework project.

Location of amendments

- BC9 The Board also considered whether to propose making the amendments to provide the optional transitional relief to AASB 1053 or to AASB 1060. While the equivalent relief for for-profit private sector entities is included in AASB 1053 (Appendix E), the Board decided that in this instance AASB 1060 was the more appropriate location. This is because the relief proposed in ED 306 would apply only to NFP entities that are transitioning early from Tier 2 RDR. The Board concluded that entities transitioning between the Tier 2 frameworks would not normally refer to AASB 1053 for transition guidance as AASB 1053 deals with entities transitioning between tiers, rather than to new requirements relating to the same tier.

Other amendments

- BC10 The Board also proposed some editorial improvements to AASB 1053 to highlight that the relief set out in Appendix E of AASB 1053 applies only to for-profit private sector entities.

Finalisation of ED 306 proposals

- BC11 Following the consultation period, and after considering the comments received, the Board decided to proceed with issuing this Standard, with minimal changes from the proposals in ED 306.

Feedback from respondents on ED 306

- BC12 The Board received six formal comment letters on ED 306. The feedback received indicated that, in general, all respondents were supportive of the proposals. However, some respondents suggested that:

- (a) the Board should adopt a sector-neutral approach to transition relief. In their view, NFP entities should have the same transition relief as for-profit private sector entities whether they are transitioning from SPFS, Tier 1 or Tier 2 RDR and preparing Tier 2 SD for the first time; and
- (b) consequently, AASB 1060 may not be the best place for the proposed amendments, given their support for additional transitional relief for NFP entities.

- BC13 The Board considered this feedback and decided:

- (a) to extend the relief from presenting comparative information for those disclosures not previously made to also include transition from Tier 1 to Tier 2 SD. This was because both Tier 1 and Tier 2 SD are prepared on the same recognition and measurement basis and there would be very few, if any, disclosures for which comparative information was not presented. Extending the relief would therefore have a limited impact on comparability and would provide consistent optional relief for NFP entities transitioning between types of general purpose financial statements;
- (b) not to provide any relief to NFP entities transitioning from SPFS at this time. As noted in paragraphs BC7 and BC8, NFP entities are not currently required to transition from SPFS. The Board did however reaffirm that it intends to consider specific transition relief for NFP entities, including those that may be required to transition from SPFS, as part of its NFP Private Sector Financial Reporting Framework project; and
- (c) AASB 1060 remained the most appropriate location for these amendments. Although the optional relief in this Standard no longer applies solely to NFP entities transitioning between Tier 2 frameworks, the Board heard no compelling reasons to relocate the amendments from AASB 1060. NFP entities applying the optional relief will be transitioning to Tier 2 SD. Therefore, including the relief in the applicable Tier 2 Standard (AASB 1060) remained appropriate.

Effective date and early application

- BC14 To ensure consistency between for-profit private sector entities and NFP entities, it was necessary to align the effective date of this Standard with the effective date of the equivalent relief available to for-profit private sector entities. For this reason, the Board decided that this Standard would be effective for annual periods beginning on or after 1 July 2021, with earlier application permitted, provided AASB 1060 is also applied to the same period.