Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 1060.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in AASB 1060. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

The need for a new disclosure Standard for Tier 2 entities

BC2 This Standard has been developed in conjunction with AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* to:

(a) provide Tier 2 reporting requirements for those for-profit entities that will be prohibited from preparing special purpose financial statements (SPFS) when AASB 2020-2 becomes operative, that appropriately balance the needs of users with the costs of moving from SPFS to Tier 2;

(b) reduce the reporting burden of for-profit and not-for-profit (NFP) entities using the current Tier 2 reporting requirements for preparing General Purpose Financial Statements (GPFS) as a result of the AASB's post-implementation review of the current Reduced Disclosure Requirements (RDR) framework; and

(c) maximise the use of relevant International Financial Reporting Standards (IFRS) based materials by more closely reflecting the IFRS for SMEs disclosures in this Standard and support the International Accounting Standards Board (IASB) with its project to develop a reduced disclosure IFRS standard that combines full IFRS recognition and measurement (R&M) requirements with IFRS for SMEs disclosures[1].

BC3 Entities that are required to prepare financial statements in accordance with Australian Accounting Standards (AAS) have a choice of two disclosure frameworks[2]:

(a) Tier 1 reporting requirements which apply to the GPFS of for-profit private sector entities that have public accountability and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards and the Australian Government and State, Territory and Local Governments; and

(b) Tier 2 reporting requirements which apply to the GPFS of for-profit private sector entities that do not have public accountability, not-for-profit private sector entities and public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

BC4 Before the adoption of AASB 2020-2 entities that had self-assessed to be a non-reporting entity, could also elect to prepare SPFS. However, in March 2020 the Board decided to remove this ability based on the feedback received on the March 2018 Consultation Paper ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* and the subsequent ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

BC5 AASB 2020-2 removes the ability to prepare SPFS for the following for-profit entities:

(a) for-profit private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards;

(b) other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021; and

1 In January 2020, the IASB moved its *Disclosure Initiative – Subsidiaries that are SMEs* project to the standard-setting programme. The objective of the project is to develop a reduced disclosure IFRS Standard that would apply on a voluntary basis to subsidiaries that do not have public accountability.

2 AASB 1053 *Application of Tiers of Australian Accounting Standards*, paragraphs 11-13

(c) other for-profit entities that elect to prepare GPFS and apply the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) and the consequential amendments to other pronouncements set out in Accounting Standards AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* and AASB 2020-2 Amendments to Australian Accounting Standards – *Removal of Special Purpose Financial Statements for Certain For-Profit Sector Entities.*

BC6 To help reduce the cost burden for for-profit entities that will be affected by the removal of SPFS, and noting the comments received on ITC 39, the Board agreed to make further reductions to the disclosures that apply to Tier 2 entities compared to the GPFS Tier 2 RDR framework.

BC7 The Board also noted the strong preference expressed by respondents to ITC 39 for a framework that includes full R&M requirements in AAS on the grounds that it would enhance the comparability, consistency and transparency of the financial statements. Feedback from targeted outreach emphasised that users agreed the usefulness of information within financial statements for decision making is adversely affected where entities have not consistently applied R&M requirements. Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC108−BC114.

BC8 While some respondents had called for more than one Tier 2 GPFS framework for for-profit entities, the Board noted that given the small number of for-profit entities required to publicly lodge financial statements with ASIC, which will be even less following the increase of the reporting thresholds for large proprietary companies (April 2019), the development and maintenance of more than two GPFS disclosure frameworks was not warranted. The Board further emphasised that entities without a statutory requirement to comply with AAS, such as those below the now doubled large proprietary thresholds, would be able to continue to tailor their financial statements to the needs of their specific users and therefore additional Tiers were not required. Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC99−BC107.

BC9 However, separate targeted consultations will be undertaken in relation to the implementation of the IASB's revised Conceptual Framework by not-for-profit (NFP) private and public sector entities which may result in more than two tiers for those sectors, as the characteristics of those sectors are quite different. For these entities, this Standard is therefore an interim measure until more progress is made through further consultation and outreach.

BC10 After having considered the various options outlined below and the feedback received on ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, the Board is of the view that this Standard addresses stakeholders' concerns and provides an appropriate balance between user needs and preparer costs.

Options considered: why using the *IFRS for SMEs* Standard as the basis for the new Tier 2 Standard?

BC11 In developing AASB 1060, the Board considered the following options:

(a) retain the current Tier 2 disclosure requirements (RDR framework);

(b) adopt the alternative proposed in ITC 39 (SDR framework – see paragraph BC13);

(c) revisit the proposals in ED 277 *Reduced Disclosures Requirements for Tier 2 Entities*; or

(d) develop a new disclosure Standard based on the *IFRS for SMEs* Standard.

RDR and SDR frameworks – feedback from ITC 39

BC12 In ITC 39, the Board proposed to replace the current RDR framework with a revised disclosure framework and proposed two alternatives for Tier 2 (See Specific Matter for Comment 12 of ITC 39). Alternative 1 was the existing Tier 2 RDR under AASB 1053 *Application of Tiers of Australian Accounting Standards* which requires compliance with the full R&M requirements of AAS (as amended for NFP specific issues) and with minimum disclosures specified in each Standard.

BC13 The second proposed alternative, the Specified Disclosure Requirement (SDR), was a revised disclosure framework. It required full R&M requirements of AAS (as amended for NFP specific issues) and included the disclosure of those Standards that are currently mandatory for entities required to prepare financial statements in accordance with Chapter 2M of the *Corporations Act 2001 (Cwth)*, being 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* and AASB 1054 *Australian Additional Disclosures,* and disclosures required by AASB 15 *Revenue from Contracts with*

Customers, AASB 112 *Income Taxes*, AASB 124 *Related Party Disclosures* and AASB 136 *Impairment of Assets*.

BC14 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 Taxation Office (ATO), the Australian Securities and Investments Commission (ASIC), credit rating agencies and professional bodies. The ITC 39 proposals were also presented at various forums, workshops, roundtables and discussion groups.

BC15 The Board received feedback on its proposals in ITC 39 through 33 formal comment letters from professional service firms, regulators, professional bodies, academics, preparers, users of financial statements and other respondents. Furthermore, feedback was sought via targeted user and preparer surveys in quarter 3 of 2018, which received a total of 37 user and 49 preparer responses[3]. The surveys were focussed on the specific matters for comment in ITC 39, and were used to get a better understanding of which of the Tier 2 GPFS frameworks proposed in ITC 39 users preferred (and why), as well as what transitional relief would be helpful to preparers.

BC16 The feedback on the proposed SDR framework was that the SDR had too many disclosures in some ways but fell short in many other ways. For example, the feedback received from roundtables, surveys and submissions on ITC 39 was that whilst the disclosures in SDR are important, requiring full disclosure of those nine Standards (as explained in paragraph BC13) was too much. Most participants further suggested that SDR might not be appropriate for all industry sectors and is missing some critical disclosures to help predict the viability of an entity such as liquidity, contingent liabilities, subsequent events and commitment disclosures.

BC17 At the same time, respondents noted that refining the principles used in determining the level of disclosures required for Tier 2 entities to achieve an appropriate balance between the benefits of financial information to users and the costs to preparers of providing that information is crucial. The feedback from the roundtables, surveys and submissions on ITC 39 indicated that RDR has too many disclosure requirements.

Revisiting the proposals in ED 277

BC18 The RDR disclosure requirements in Australia and New Zealand are essentially the same and are based on an approach developed by the Board in 2010. That approach draws on the disclosure requirements in the *IFRS for SMEs* Standard when Tier 2 R&M requirements are the same as those under the *IFRS for SMEs* Standard; and applies the 'user needs' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* Standard when full R&M requirements are not the same as those available under the *IFRS for SMEs* Standard. A top-down approach is used which starts with the full IFRS disclosures and then identifies those that can be removed. The Board noted that there could be a tendency to retain disclosures in circumstances where a direct comparison is not possible.

BC19 A post implementation review of the RDR framework was carried out by the Board which identified that the RDR disclosure requirements had not delivered the expected outcome and that take up of the RDR framework by entities was consequently low[4]. In response to the findings of the post implementation review, the Board issued ED 277 in January 2017 as a joint project with the New Zealand Accounting Standards Board (NZASB).

BC20 ED 277 proposed adopting an RDR decision-making framework, together with accompanying operational guidance. The framework was based on Key Disclosure Areas (KDAs) which were meant to result in information that meets user needs. Judgement was required when applying this framework, and the overarching principles of user needs and cost-benefit were considered when determining the disclosures that Tier 2 entities should make.

BC21 The approach taken in the proposed Tier 2 framework in ED 277 was to include an Australian Appendix in each AAS that identifies the disclosures that Tier 2 entities are required to provide, thereby addressing concerns by those that find the shading used to identify disclosures that can be omitted confusing. However, while ED 277 was based on clear disclosure principles, the cost-benefit analysis was difficult to apply in the

3 See AASB Staff *Paper Enhancing the revised Conceptual Framework and replacing Special Purpose Financial Statements – For-profit User and Preparer Survey Results*.

4 As per paragraph BC14 of ED 277, the level of adoption among other types of companies, including large proprietary companies was very low – with the likely reason being that the general level of disclosure under Tier 2 was still viewed as burdensome. A research paper (Potter, B., Tanewski, G., and Wright, S., 2016, Financial Reporting by Private Companies in Australia: Current Practice and Opportunities for Research, paper presented at the AASB Research Forum, November 24 2016, Sydney) on the financial reporting practices by a sample of large proprietary companies in Australia lodging annual financial statements with ASIC identified that:

(i) less than 10 percent of the total sample use Tier 2 disclosures; and

(ii) of those large proprietary companies sampled that prepare GPFS, around 20 percent use Tier 2 disclosures.

A subsequent analysis of financial reports of for-profit non-disclosing entities lodging financial statements with ASIC in 2018 confirmed that 71 percent of these entities were still lodging SPFS with ASIC, 13 percent lodged Tier 2 GPFS and 16 percent Tier 1.

context of disclosures and the top-down approach resulted in too many disclosures being retained, as removal was difficult to justify with the KDAs.

BC22 Feedback from Australian stakeholders confirmed that ED 277 still resulted in too many disclosures. While the Board had intended to conduct further outreach and consultation on the proposals in ED 277, any further work was put on hold following the issue of the revised Conceptual Framework by the IASB in March 2018 and the decision by the Board to reform the Australian Financial Reporting Framework and propose removing the ability for entities to prepare SPFS when required to comply with AAS by legislation or otherwise.

Issue of ED 295 – New disclosure Standard based on the disclosures in *IFRS for SMEs* Standard

BC23 In weighing up the shortfalls of RDR, the other proposed Tier 2 options and the disclosure principles applied by the IASB while developing the *IFRS for SMEs* Standard, the Board decided in February 2019 to develop a new Tier 2 Standard based on the disclosures in the *IFRS for SMEs* Standard which would be available for GPFS that are publicly lodged or are required to comply with AAS, but do not relate to entities that are publicly accountable.

BC24 Using the *IFRS for SMEs* Standard as the base maximises the use of relevant IFRS-based materials. The Board further noted that the IASB had added a research project on Subsidiaries that are SMEs to their agenda in March 2019, which was moved to the standard-setting programme in January 2020. Consistent with the policy of adopting Standards issued by the IASB for application by Australian entities, AASB 1060 may ultimately be replaced with the Standard developed by the IASB. This would not only remove the need for the Board to maintain a separate Tier 2 Standard, but also provide comparability and consistency for subsidiary reporting globally. However, this is a longer-term project and the Board needs to have a revised disclosure framework in place in time for the removal of SPFS from 1 July 2021. While the Board could therefore not wait for the IASB to complete their project, the Board will monitor the progress of the IASB's project closely.

BC25 The disclosures that are relevant to Tier 2 entities are set out in a separate Standard, being AASB 1060, which was exposed for public comment in August 2019 as ED 295, together with ED 297. The comment period for both EDs ended on 30 November 2019.

BC26 Extensive outreach was conducted on the proposals, including roundtables in Melbourne, Sydney, Brisbane, Perth and Adelaide, attended by 127 stakeholders, a webinar with 162 participants, as well as separate consultations with the AASB's User Advisory Committee, credit analysts and private equity investors.

BC27 The Board received 25 formal submissions on ED 295 from stakeholders representing professional services firms, regulators, professional bodies, academics, preparers, public sector audit offices, software providers and others.

BC28 The following section details the matter considered by the Board in developing the proposals and this Standard, including the Board's decisions on how to address stakeholders' feedback as part of the exposure process.

Costs vs benefits

BC29 The Board identified the following benefits arising from the adoption of the new Tier 2 Standard over the other options considered:

(a) The IASB has developed the disclosures in the *IFRS for SMEs* Standard with for-profit private sector entities that are not publicly accountable entities in mind and considers that they are adequate to meet the needs of the relevant users[5].

(b) A comparison of the new disclosures to the disclosures that would be required under the SDR and RDR has confirmed that adoption of the new Tier 2 Standard addresses stakeholders concerns by resulting in a level of disclosures that lies in between the current RDR and the proposed SDR requirements.

(c) This option is based on a bottom-up approach in developing disclosures and avoids needing to identify specific full IFRS disclosures that need to be retained and those that can be excluded. It is a more rigorous and targeted way of reducing disclosures to an appropriate level (based on previous

5 The IASB was guided by the broad principles set out in paragraph BC41, but also relied on the recommendations of a working group which undertook a comprehensive review of the disclosure proposals in the exposure draft, and the comments on those proposals in response to the exposure draft. In addition, the IASB received feedback from representatives of a number of German banks that lend extensively to small private entities and provided the IASB with a comprehensive report on disclosure needs from a bank lender's perspective. See paragraphs BC44-BC47 and BC156-158 of the *IFRS for SMEs* Standard – Part B.

experiences with the RDR approach, as it involves needing to justify additional disclosures rather than the removal of disclosures from full IFRS).

(d) This option introduces more flexibility as it allows drafting disclosures to suit the circumstances and not be restricted by existing full IFRS disclosures.

(e) Setting out the disclosures in a separate Standard will make it easier for stakeholders, as it avoids having to identify applicable disclosures via shading in between the full disclosures. The Board noted that this will also improve readability where parts of sentences were shaded in the RDR (ie excluded).

BC30 However, the Board noted that adopting this Standard will result in a divergence from the New Zealand RDR Framework. The AASB's *For-Profit Entity Standard-Setting Framework* sets out that differences between accounting Standards issued in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman. This divergence could cause inconvenience for entities operating trans-Tasman. Notwithstanding this, the Board noted that the R&M requirements for entities applying the Tier 2 reporting frameworks in Australia and New Zealand would remain consistent and given the current situation of many Australian entities not complying with full R&M requirements, the overall outcome is likely to be more consistency with NZ requirements than currently. The Board further noted that the NZ XRB has asked its stakeholders about the importance of harmonisation with Australia in their Targeted Review of the Accounting Standards Framework in July 2019 and that the NZASB will consider the feedback in future discussions on whether and how to respond to the developments in Australia and internationally.

BC31 The Board also noted that the simplified Tier 2 disclosures are contained in a separate Standard which might not be welcomed by preparers who prefer seeing the disclosure requirements together with the R&M requirements in each Standard. However, only four respondents to ED 295 did not like having a separate disclosure standard. Feedback at the roundtables and webinars was overwhelmingly positive.

BC32 Finally, for entities that were previously preparing SPFS, the adoption of AASB 2020-2 means a step-up in their disclosures. The disclosures will also likely exceed what would have been required under the SDR proposals outlined in paragraph BC13. However, there will be some disclosure relief, as SPFS currently are required to comply with all the disclosures in the mandatory standards (AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054) which go beyond what is required under AASB 1060. Furthermore, the doubling of the reporting thresholds for large proprietary companies in April 2019 has already reduced the number of entities that are required to prepare and lodge financial statements with ASIC by approximately 2,300 companies, and the Board has further reduced the burden for affected entities by providing transitional relief for entities that are adopting AASB 2020-2 and AASB 1060 early, ie for financial years beginning before 1 July 2021. Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC122−BC153.

BC33 After considering both the advantages and disadvantages noted above, the Board was of the view that the simplified disclosures strike the right balance between user needs and cost to preparers and appropriately address the concerns raised by respondents to ITC 39. In particular, the Board noted the strong support for a consistent reporting framework which requires compliance with full R&M requirements in AAS but revisits the current disclosures that are required for Tier 2 entities under the RDR framework. The disclosures in AASB 1060 will not only be beneficial for entities that are already reporting under Tier 2 but also those entities that will have to step up from SPFS to Tier 2 GPFS when the removal of SPFS for certain for-profit private sector entities that are required to prepare financial statements that comply with AAS or accounting standards through AASB 2020-2 becomes applicable.

Methodology and principles applied

BC34 In accordance with AASB 1053, Tier 2 requirements comprise the R&M requirements of Tier 1 but substantially reduced disclosure requirements. AASB 1053 sets out the eligibility criteria that entities must meet to report in accordance with the Tier 2 framework. This framework does not change those criteria.

BC35 The Board agreed to develop the new disclosures via a bottom-up approach, starting with the existing disclosures in the *IFRS for SMEs* Standard. This avoids having to identify specific full AAS disclosures that need to be retained and those that can be excluded. This approach also avoids the tendency to retain disclosures in circumstances where a direct comparison is not possible. To distinguish the new disclosure framework from the previous RDR framework, it will be referred to as the 'Simplified Disclosures' framework.

BC36 While the Board has decided not to adopt the *IFRS for SMEs* Standard as an alternative for Tier 2 reporting[6], the IASB's assessment of user needs and cost-benefit considerations in relation to the disclosures for this group of entities will be similarly relevant to Australian for-profit private sector entities without public accountability. The Board therefore considers the *IFRS for SMEs* based disclosures an appropriate starting point for developing a disclosure Standard for this group of entities.

BC37 The Simplified Disclosures framework is based on the premise that the disclosures in the *IFRS for SMEs* Standard should be retained where the R&M requirements and options are the same or similar in the *IFRS for SMEs* Standard and full IFRS. Disclosures relating to R&M options or treatments in the *IFRS for SMEs Standard* that are not available in full IFRS will be removed. Disclosures have only been added in comparison with the *IFRS for SMEs* Standard base where the R&M principles were significantly different or certain topics are not addressed under the *IFRS for SMEs* Standard.

BC38 In considering the *IFRS for SMEs* Standard, the Board noted that the nature and degree of the differences between the disclosures in full IFRS Standards and the disclosures in the *IFRS for SMEs* Standard is determined on the basis of users' needs and cost-benefit analyses[7]. The Board noted that the overall increase in disclosures for entities transitioning from SPFS (eg related party and financial instrument disclosures) offsets the loss of some disclosures as a result of not having to fully comply with AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054. In some instances, based on user feedback, public policy interest (eg audit fees and tax reconciliation – see paragraphs BC75 and BC79–80) or to reflect Australian specific issues (eg imputation credits – see paragraphs BC83-BC84), the Board has retained additional disclosures above *IFRS for SMEs*.

BC39 The disclosure requirements in the *IFRS for SMEs* Standard are therefore substantially reduced when compared with the disclosure requirements in full IFRS Standards. The IASB identified the following four principles as being used for the reductions:

(a) some disclosures are not included because they relate to topics covered in IFRS Standards that are omitted from the *IFRS for SMEs* Standard (as per paragraph BC88 of *IFRS for SMEs* Standard 2015 – Part B);

(b) some disclosures are not included because they relate to R&M principles in full IFRSs that have been replaced by simplifications in the *IFRS for SMEs* Standard (as per paragraphs BC98–BC136 of the *IFRS for SMEs* Standard 2015 – Part B);

(c) some disclosures are not included because they relate to options in full IFRS Standards that are not included in the *IFRS for SMEs* Standard (as per paragraphs BC84–BC86 of the *IFRS for SMEs* Standard 2015 – Part B); and

(d) some disclosures are not included on the basis of users' needs or cost-benefit considerations (as per paragraphs BC44–BC47, BC157 and BC158 of the *IFRS for SMEs* Standard 2015 – Part B).

BC40 In addition to these principles, the Board further decided that disclosures should be reduced from the *IFRS for SMEs* Standard where the disclosure requirements have been removed from full IFRS after the *IFRS for SMEs* Standard was finalised and as a result exceed what is currently required under the full IFRS (as per paragraphs BC43, BC66–BC67 and BC71 of this Standard).

BC41 In determining what disclosures to add, the following broad principles have been applied by the Board, which are consistent with those applied by the IASB in developing the disclosures in the *IFRS for SMEs* Standard[8]:

(a) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities. Thus disclosures in full IFRS Standards that provide this sort of information are necessary;

(b) users of the financial statements of for-profit entities that are not publicly accountable entities are particularly interested in information about liquidity and solvency. Thus disclosures in full IFRS Standards that provide this sort of information are necessary;

(c) information on measurement uncertainties is important;

(d) information about an entity's accounting policy choices is important;

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6 In considering the feedback received on ITC 39, the AASB noted in February 2019 that while a minority of respondents had asked the Board to consider the *IFRS for SMEs* Standard as an option or alternative for Tier 2 GPFS, these respondents did not provide any new arguments as to whether the *IFRS for SMEs* Standard would be preferable to full R&M. The AASB further noted that the *IFRS for SMEs* Standard includes requirements for consolidated financial statements, deferred tax accounting, financial instruments accounting and related party disclosures that are not substantively different to full IFRS R&M requirements. For these reasons, the AASB decided not to propose a Tier 2 GPFS framework with differential R&M requirements as an option or alternative for Tier 2 GPFS for the for-profit sector. Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC99−BC107.

7 As per paragraph BC46 of *IFRS for SMEs* Standard – Part B.

8 See paragraph BC157 of *IFRS for SMEs* Standard – Part B

(e) disaggregations of amounts presented in the financial statements of for-profit entities that are not publicly accountable entities are important for an understanding of those statements; and

(f) some disclosures in full IFRS Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical for-profit entities that are not publicly accountable entities.

BC42 In addition, to these principles the Board agreed to add disclosures where they address matters of public policy (eg audit fees and tax reconciliation – see paragraphs BC75 and BC79–BC80) or reflect Australian specific issues (eg imputation credits – see paragraphs BC83-BC84).

BC43 Consistent with the IASB's intentions in relation to the *Subsidiaries that are SMEs* project, tailoring of the IFRS for SMEs disclosure requirements has further been restricted to the absolute minimum. As identified in paragraph BC70, this resulted in the retention of termination benefit disclosures which are not required under full AAS. However, consistent with the principle in paragraph BC40, where the IASB has removed disclosures from full IFRS after the *IFRS for SMEs* Standard was finalised, these reductions were carried over to AASB 1060. This has affected in particular the leasing disclosures, see paragraphs BC66–BC67 and resulted in the removal of a number of employee benefits disclosures.

BC44 To identify R&M differences, the Board has referred to:

(a) the AASB staff paper *Comparison of Standards for Smaller Entities* prepared and published in April 2018;

(b) full IFRS vs *IFRS for SMEs* Standard comparisons included in the *IFRS for SMEs* Standard modules published by the IASB; and

(c) individual analyses of Standards, where a topic is covered by neither of these two sources.

BC45 Judgement was exercised when applying the framework and the overarching principles of user needs and cost-benefit were considered when determining the disclosures that are relevant for Tier 2 entities. Significant judgements made in this process are explained in paragraphs BC54−BC93.

BC46 The disclosures that are relevant to Tier 2 entities are set out in this Standard (ie are not shaded in the body or the appendix of each AAS). They are considered by the Board to be appropriate for GPFSs that are publicly lodged or are required to comply with AAS, but do not relate to entities that are publicly accountable.

BC47 As a general rule, the presentation requirements of full AAS have been retained, and the Board noted that it did not intend to make any changes to the presentation requirements or accounting treatments available under AAS.

BC48 This applies in particular to the presentation requirements in AASB 101 and AASB 107 even though these Standards have been replaced in their entirety with AASB 1060 paragraphs 8 to 97. The only exception made relates to the option of not presenting a separate statement of changes in equity as noted in paragraph BC62.

BC49 ED 295 further proposed to replace the presentation requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* with those included in the *IFRS for SMEs* Standard. However, after considering the feedback received on ED 295, the Board decided to amend the proposals to align the presentation requirements in AASB 1060 with those in AASB 5. This will ensure consistency in the presentation of discontinued operations between Tier 1 and Tier 2 entities and is consistent with the overall intention to retain the presentation requirements from full AAS and only adopt the IFRS for SMEs disclosures.

BC50 The Board noted that any future changes made to AAS will be assessed using the above principles, to determine whether and how the changes would require amendments to AASB 1060. Where necessary, amendments to AASB 1060 will be made in time to ensure they are effective at the same time as the amendments to the full AAS. This will ensure AASB 1060 will continue to be appropriately aligned with the requirements of full AAS.

Scope and application to not-for-profit and public sector entities

BC51 While the disclosures in the *IFRS for SMEs* Standard are developed specifically for for-profit private sector entities, the Board agreed that AASB 1060 should also be made applicable to not-for-profit private sector entities and public sector entities, other than the Australian Government and State, Territory and Local Governments. Making AASB 1060 applicable to all Tier 2 entities, whether for-profit or NFP, will result in an immediate reduction in disclosures compared to the current RDR framework, and NFP private sector entities will be able to benefit from this reduction in disclosures while waiting for legislative action on the ACNC legislative review recommendations and for a revised NFP Financial Reporting Framework to be developed[9]. Similarly, public sector entities will also benefit while consideration is being given to improving public sector financial reporting[10]. The Tier 2 disclosure framework may still be relevant to NFP entities as one of the tiers of reporting for that sector even after a revised NFP Financial Reporting Framework is developed.

BC52 While respondents to ED 295 had suggested deferring the mandatory date of AASB 1060 for NFP entities possibly until the NFP private and public sector financial reporting frameworks have been finalised, the Board decided against different application dates to avoid the confusion for users that would come from having two Tier 2 reporting frameworks in operation at the same time.

BC53 In determining whether disclosures would need to be added to address any R&M differences that are specific to NFP private sector and public sector entities, the Board has applied paragraph 28 of the *AASB's Not-for-Profit Entity Standard-Setting Framework* and the principles listed in paragraphs BC41 and BC42 above. While those principles have been developed with a specific focus on the users of the financial statements of private sector entities, the Board considers that they are also relevant to the users of the financial statements of NFP entities. However, the Board also acknowledged that certain transactions or items in the financial statements are unique to NFP entities and may require additional information, as set out in the AASB's *Not-for-Profit Entity Standard Setting Framework*. A limited number of disclosures have been added to AASB 1060 for that reason. Further details about the decisions made in relation to specific disclosures are set out in paragraphs BC91–BC93.

Significant decisions made by the Board in developing the disclosures

Replacing entire Standards with AASB 1060

BC54 In considering the ease of application for Tier 2 entities, the Board decided to replace any Standards that deal exclusively with presentation and disclosure requirements in their entirety with the corresponding requirements in AASB 1060. New paragraphs 20A and 20B are added to AASB 1057 *Application of Australian Accounting Standards* to note that entities applying this Standard do not need to comply with AASB 7 *Financial Instruments:Disclosures*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 101, AASB 107 and AASB 124. These Standards will be replaced with the following sections from the *IFRS for SMEs* Standard:

(a) Financial Statement Presentation (AASB 101): paragraphs 8 – 33

(b) Statement of Financial Position (AASB 101): paragraphs 34 – 47

(c) Statement of Profit or Loss and Other Comprehensive Income (AASB 101): paragraphs 48 – 58

(d) Statement of Changes in Equity and Statement of Income and Retained Earnings (AASB 101): paragraphs 59 – 63

(e) Statement of Cash Flows (AASB 107): paragraphs 64 – 89

(f) Notes to the Financial Statements (AASB 101): paragraphs 90 – 103

(g) Consolidated and Separate Financial Statements (AASB 12): paragraphs 104 – 105

(h) Basic Financial Instruments (AASB 7): paragraphs 111 – 119

(i) Other Financial Instruments Issues (AASB 7): paragraphs 120 – 122

(j) Investments in Associates (AASB 12): paragraphs 125 – 128

(k) Investments in Joint Ventures (AASB 12): paragraphs 129 – 131

(l) Related Party Disclosures (AASB 124): paragraphs 189 – 203

BC55 The Board noted that by replacing the five Standards listed in paragraph BC54, this also removes some of the guidance included in these Standards which is not included in the *IFRS for SMEs* Standard. However, for the sake of maintaining simplicity of the disclosure requirements, the Board considered this to be preferable to considering on a case-by-case basis which guidance should be included and which could be omitted. As noted in paragraph BC47, the Board does not intend the removal of the guidance to result in any differences in the presentation requirements to full AAS. However, in response to stakeholder feedback, the Board added paragraph 2 which specifically permits entities to refer to other Standards for guidance on requirements in this Standard. The Board also added the definitions from the replaced Standards in Appendix A.

9 See AASB Discussion Paper: Improving Financial Reporting for Australian Charities
10 See AASB Discussion Paper: Improving Financial Reporting for Australian Public Sector

BC56 To prevent possible differences in presentation requirements to full AAS, the Board further decided to add the following requirements from AASB 101, AASB 107 and AASB 124 to AASB 1060 which deal with:

(a) the prohibition for Australian entities that apply AASB 1060 to depart from a requirement in an Australian Accounting Standard (paragraph 12 in this Standard and paragraph Aus19.1 in AASB 101);

(b) the specific prohibition to offset assets and liabilities or income and expenses, unless required or permitted by an Australian Accounting Standard (paragraph 24 in this standard and paragraph 32 in AASB 101);

(c) the option to present the net cash flow from operating activities under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables (paragraph 72 in this standard and paragraph 20 in AASB 107);

(d) options to report certain cash flows on a net basis (paragraphs 75 to 78 in this Standard and paragraphs 22–24 in AASB 107);

(e) the exemption from the disclosure of key management personnel compensation where the entity obtains key management personnel services from another entity (paragraphs 195 and 196 in this standard and paragraphs 17A and 18A in AASB 124).

BC57 The prohibition to depart from a requirement in an Australian Accounting Standard reflects Australian specific circumstances which are also relevant to Tier 2 entities and hence needs to be included. Paragraphs 3.4, 3.5 and 3.6 of the *IFRS for SMEs* Standard have been deleted, as they are not relevant to entities applying this Standard.

BC58 The offsetting prohibition in paragraph BC56(b) is included in Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard (paragraph 2.52). As this section has been otherwise excluded from this Standard on the basis that it does not include any disclosures, the prohibition had to be separately added to this Standard.

BC59 Permitting the options in the presentation of the cash flow statement from AASB 107 ensures that there are no differences in presentation to full AAS and avoids any possible issues, for example for the consolidation of subsidiaries that report under Tier 2 by parent entities that report under Tier 1 (full AAS).

BC60 Retaining the exemption from disclosing key management personnel compensation in paragraph BC56(e) for entities that obtain key management personnel services from another entity avoids having potentially more onerous disclosure requirements than for Tier 1 entities. While arguably the exemption in paragraph 17A of AASB 124 (paragraph 195 in this Standard) only provides relief from disclosing the breakdown of key management personnel compensation that is otherwise required to be disclosed by AASB 124 paragraph 17, the Board noted that the fees paid to a management entity that must be disclosed under paragraph 18A of AASB 124 (paragraph 196 in this Standard) may also cover other services, and that the fees many not specifically identify the amount relating to key management personnel services.

BC61 To avoid any potential R&M differences, the Board further decided to replace the definition of materiality in the *IFRS for SMEs* Standard with the recently updated definition of material from AASB 101 and added paragraph 23 which clarifies the application of materiality (based on paragraph 31 in AASB 101). The Board also replaced the guidance on the presentation of information in the notes (structure of notes, paragraph 93 in this standard and paragraph 8.4 in the *IFRS for SMEs* Standard) with the revised guidance from paragraphs 114 and 116 of AASB 101 that was introduced via amendments to AASB 101 in 2015 and added additional guidance to paragraph 40 confirming that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification (from paragraph 69(d) of AASB 101). This will further ensure that there are no presentation differences to full AAS.

BC62 Consistent with the basic approach of minimising differences to the disclosures in the *IFRS for SMEs* Standard, the Board decided to retain paragraph 3.18 of the *IFRS for SMEs* Standard which includes an option of not presenting a statement of changes in equity if the only changes to equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy (paragraph 26 in this Standard).

BC63 In relation to the replacement of AASB 12, the Board noted that the investment entity exemption from consolidation creates a R&M difference to the *IFRS for SMEs* Standard. However, based on the principles listed in paragraph BC41, the Board did not consider that additional disclosures would be warranted in relation to this exemption. The Board noted that the IASB discussed the investment entity exception in the context of the 2020 Request for Information *Comprehensive Review of the IFRS for SMEs Standard* and concluded that few entities eligible to apply the *IFRS for SMEs* Standard would be investment entities. The Board also expects the exemption to have limited practical impact, since the majority of investment entities will be publicly accountable and therefore not able to apply this Standard.

BC64 In responding to stakeholders' concerns that an investment entity preparing separate financial statements could not comply with paragraph 105 of this Standard because the paragraph requires the entity to identify the consolidated financial statements or other primary financial statements to which the separate financial statements relate, the Board noted that separate financial statements are defined in AASB 127 *Separate Financial Statements* as financial statements that are presented in addition to consolidated financial statements or to financial statements that apply equity-accounting to investments in associates or joint ventures (consistent with the definition of separate financial statements in the *IFRS for SMEs* Standard). Therefore, the financial statements prepared by investment entities would not be separate financial statements under that definition and as a result paragraph 105 would not apply.

Judgements made in adding, removing or adapting the disclosures in the *IFRS for SMEs* Standard

BC65 The Board has exercised a number of significant judgements while adding, removing and amending disclosures from the certain sections of the *IFRS for SMEs* Standard.

BC66 In considering the R&M differences between AASB 16 *Leases* and Section 20 *Leases* in the *IFRS for SMEs* Standard, the Board noted that the accounting for all leases held by lessees under AASB 16 is broadly similar to the the accounting for finance leases in the *IFRS for SMEs* Standard. As a consequence, the Board considered that the disclosures for finance leases should be used as a basis, and only be adapted for different terminology used in AASB 16 (eg referring to variable lease payments instead of contingent rent).

BC67 The Board also decided in principle to adapt the current disclosures for operating leases to apply to short-term leases and leases of low value assets that have not been recognised as right-of-use assets per the exemption in paragraph 6 of AASB 16. However, the Board noted that the disclosures in the *IFRS for SMEs* Standard about operating lease commitments are more extensive than what is required under paragraphs 55 and 60 of AASB 16. AASB 16 is a recent Standard that was finalised after the *IFRS for SMEs* Standard was developed. As noted in paragraph BC40, the Board considered that where the IASB has removed disclosures from full IFRS after the *IFRS for SMEs* Standard was finalised, similar reductions in disclosures should also be carried over to the new Tier 2 Standard. Therefore, the Board decided to replace the disclosures in the *IFRS for SMEs* Standard with the relevant disclosures from AASB 16.

BC68 In considering the R&M differences between AASB 15 and Section 23 *Revenue* in the *IFRS for SMEs* Standard, the Board noted that while the differences may affect the amount and timing of the revenue recognised, under both AASB 15 and Section 23, revenue is either recognised at a point in time or over time. On that basis, the Board decided to adapt the disclosures in the *IFRS for SMEs* Standard to reflect the different terminology used in AASB 15 but without adding unnecessary details. For example, the requirement to disclose specified categories of revenue has been replaced with a requirement to disaggregate revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The reference to "methods used to determine the stage of completion" has been changed to "methods used to recognise revenue for performance obligations that are satisfied over time".

BC69 In considering the difference between AASB 123 *Borrowing Costs* and Section 25 *Borrowing Costs* in the *IFRS for SMEs* Standard, the Board noted that the *IFRS for SMEs* Standard does not permit the capitalisation of borrowing costs and therefore does not require any additional disclosures. As this is an R&M difference, the Board decided to require disclosure of the amount of capitalised borrowing costs on the grounds that total interest is an important element for a user to understand liquidity and solvency of an entity, and that information about these amounts capitalised would therefore be relevant. The Board further considered that the benefits of this disclosure would exceed the cost, noting that it is was also required for RDR entities.

BC70 Based on the principle to avoid differences to the *IFRS for SMEs* Standard as far as possible, the Board decided to retain certain disclosures even though they were not required for RDR entities. These include:

(a) in relation to the section covering employee benefits, disclosures about termination benefits which are over and above what is required under full IFRS/AAS (paragraphs 173(d),(g), 174-175);

(b) disclosures about the entity's domicile and other general information (paragraph 32), the qualitative factors that make up goodwill (paragraph 142(g)), adjusting events that occurred after the end of the reporting period (paragraph 185) and parent-subsidiary relationships where an entity applies the exemption from providing related party disclosures for government-related entities (paragraph 200);

(c) disclosures about hedging (paragraphs 121 and 122), investments in associates (paragraph 126) and leasing (paragraphs 144(b), 147(d) and 148(b)) where some disclosures were added but many others removed as a result of applying the principles in paragraph BC41; and

(d) a number of disclosures in relation to the section covering transition to Australian Accounting Standards – Simplified Disclosures – see paragraph BC100 for details.

BC71 While acknowledging stakeholders concerns about the potential increase in disclosures, the Board noted that the small increases will be more than offset with the reduction in disclosures in other areas. On this basis, the Board agreed to retain the disclosures from *IFRS for SMEs* Standard, which have been demonstrated to be appropriate for small and medium sized entities without public accountability. However, consistent with the principles in paragraph BC40, the Board agreed to remove disclosures about specific components of capitalised defined benefit cost, group plans and other long-term benefits from the disclosures proposed in ED 295 as these disclosures had been included in full IFRS when the *IFRS for SMEs* Standard was first issued, but had since been removed from full IFRS.

BC72 In relation to the adjusting events after the end of the reporting period, the Board noted that paragraph 185 specifically refers to an update of 'related disclosures', which is different to the equivelant requirements in AASB 110 *Events after the Reporting Period*, where paragraph 8 requires the adjustment of amounts recognised in the financial statements and paragraphs 19 and 20 deal with disclosure-related adjustments. While RDR entities were not required to comply with paragraphs 19 and 20 of AASB 110, the Board noted that paragraph 185 refers only to disclosures that relate to amounts recognised in the financial statements and is therefore narrower than the requirements in paragraphs 19 and 20 of AASB 110. On that basis, the Board did not consider the requirements to be particularly onerous and decided to retain them consistent with the principle of consistency with the *IFRS for SMEs* Standard.

BC73 In considering differences between AASB 138 *Intangible Assets* and Section 18 *Intangible Assets other than Goodwill* in the *IFRS for SMEs* Standard, the Board noted that the *IFRS for SMEs* Standard does not permit the revaluation of intangible assets and therefore does not require relevant disclosures. The Board decided that these disclosures would be relevant and should be added, using the disclosures for property plant and equipment from paragraph 17.33 of the *IFRS for SMEs* Standard as a basis. The Board also decided to add a requirement to disclose the reason for an intangible asset having an indefinite useful life based on AASB 140 *Investment Property* paragraph 122(a), as this option is not available under the *IFRS for SMEs* Standard.

BC74 However, the *IFRS for SMEs* Standard also requires for revalued property, plant and equipment the disclosure of the carrying amount of the assets that would have been recognised under the cost model (paragraph 17.33(d) in the *IFRS for SMEs* Standard). The Board noted that the option to use the revaluation model for property, plant and equipment was only introduced into the *IFRS for SMEs* Standard as part of the amendments made in 2015. While the Basis for Conclusions to the amendments explain the reasons for permitting this option[11], they do not discuss the associated disclosures that were added in the process. When the Board discussed this particular disclosure requirement in the context of the original RDR disclosures in ED 192 *Revised Differential Reporting Framework*, it noted that the revaluation model provides more relevant information than the cost model, and that it would appear illogical and irrelevant to provide comparative information about the cost model[12]. The Board therefore concluded that the cost of this disclosure would outweigh the benefits. These arguments are still valid and on that basis the Board decided not to include this particular disclosure from the *IFRS from SMEs* Standard.

Audit fees

BC75 Stakeholders were generally supportive of adding the requirement to disclose the fees paid to each auditor and reviewer, including any network firm, from AASB 1054 to AASB 1060 (paragraphs 98 and 99). The Board considered that the disclosure of audit fees is a public policy issue (see paragraph BC42) and requiring this disclosure will assist in improving auditor independence and accountability, thereby increasing users' confidence in the quality of companies' financial reports. The Board noted that the term 'network firm' is defined in APES 110 *Code of Ethics for Professional Accountants* issued by Accounting and Professional Ethical Standards Board (APESB) (November 2018 incorporating all amendments to April 2018) and that preparers and auditors may refer to APES 110 for guidance.

Maturity Analysis

BC76 A number of respondents to ED 295 and roundtable participants noted an inconsistency in disclosures about the maturity of financial liabilities. While paragraph 144(b) (paragraph 20.13(b) in the *IFRS for SMEs* Standard) requires disclosure of a quantitative maturity analysis for future lease payments of lessees in fixed time periods, paragraph 114 (paragraph 11.42 in the *IFRS for SMEs* Standard) only has a general requirement for other financial liabilities to disclose terms and conditions "such as … maturity, repayment schedule …".

BC77 The Board acknowledged that information about the maturity of an entity's financial liabilities is important as the users of financial statements of entities that do not have public accountability are particularly interested

11 *2015 Amendments to the IFRS for SMEs*, paragraph BC210-BC212

12 ED192 – Appendix C Analysis of Disclosure Requirements: *Proposed Disclosures under RDR:* AASB 116 *Property, Plant and Equipment* and *IFRS for SMEs* Section 17 *Property, Plant and Equipment*

in information about short-term cash flows, obligations and commitments, and liquidity. However, as stakeholder feedback on this issue was mixed, the Board decided to retain the disclosures consistent with the *IFRS for SMEs* Standard. Noting that the IFRS for SMEs disclosures, in particular the leasing disclosures, are currently being reviewed by the IASB, the Board decided to flag the inconsistency in the disclosures to the IASB instead.

BC78 However, The Board also noted that while paragraph 114 only has general disclosure requirements, these still require disclosure of the terms and conditions of the debt instrument and make specific reference to the instruments' maturity and repayment schedule. The Board therefore expects entities to provide this information in some form.

Tax reconciliation

BC79 Consistent with the disclosures in the *IFRS for SMEs* Standard, ED 295 only required disclosure of a narrative explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate without requiring a numerical reconciliation. Stakeholder feedback on this proposed reduction in disclosures was mixed. Amongst others, the Australian Taxation Office noted that the audited tax reconciliation is an important source of information for its risk identification and assessment purposes.

BC80 After considering the stakeholders' feedback, the Board decided to require disclosure of a numerical tax reconciliation (paragraph 178(c)) on the basis that this is a public policy issue. The Board further noted that there has been significant interest in the income tax disclosures not only by regulators but also by the public in general, as part of the focus on possible tax avoidance in particular by multi-national entities.

Individually material items of income and expenses

BC81 Some respondents to ED 295 were concerned about the absence of a specific requirement to disclose individually material items of income and expenses and noted that this disclosure is currently explicitly required for both RDR GPFS and SPFS. While the Board acknowledged these concerns, it noted that entities applying this Standard are still expected to disclose information that is not presented elsewhere but that is relevant to an understanding of the financial statement in accordance with paragraph 91(c). This would include information about individually material items of income and expense where information about these items is necessary to assess the entity's financial performance.

BC82 However, the Board, also agreed to monitor entities' disclosure practices and may revisit this issue should it become apparent that entities do not provide sufficient disclosures in this regard.

Imputation credits

BC83 In response to stakeholders' feedback, the Board decided to add in paragraphs 100–103 the disclosure of imputation credits from paragraphs 12–15 in AASB 1054. The Board noted that, although the disclosure of imputation credits was not required under the current RDR framework, it was mandatory for entities preparing SPFS under Part 2M.3 of the *Corporations Act 2001* and therefore it should not be onerous to provide for the majority of entities transitioning from SPFS to the new Tier 2 GPFS.

BC84 The Board noted that Australia and New Zealand are among a limited number of jurisdictions that have an imputation tax regime and information about imputation credits provides useful information as the credits have the characteristics of an asset to equity investors. Moreover, published research demonstrates that the franking status of dividends increases the association between dividends and future earnings and therefore provides useful information about an entity's future earnings potential and short-term cash flows.[13] Requiring the disclosure will ensure that information about the entity's imputation credits will not be lost when entities transition from SPFS to this Standard.

Specific transition disclosure requirements in another Standard

BC85 The Board noted that other Australian Accounting Standards may provide transition options for entities on initial application and that these options may be accompanied by specific transition disclosure requirements. Examples of such transition options can be found in AASB 15, AASB 16, AASB 1058 *Income of Not-for-Profit Entities* or AASB 1059 *Service Concession Arrangements: Grantors*. The Board decided that where this is the case, the entity shall apply the relevant specific transition disclosures that are required under that

13 Coulton, J., C. Ruddock and S. Taylor, 2014, The Informativeness of Dividends and Associated Tax Credits, Journal of Business Finance and Accounting, Vol. 41, pp. 1309-1336

Standard for the selected transition option instead of the disclosures for a change in accounting policy specified in paragraph 106 of this Standard.

BC86 This is because even though the specific transition option under another Standard may require additional disclosures compared to what would be required under paragraph 106, the Board noted that the targeted disclosures of the selected transition option provide more relevant information about the transitional impact than the general accounting policy change disclosures required under paragraph 106.

BC87 For example, where an entity adopts AASB 16 using the simplified transition approach and does not restate comparative information, AASB 16 paragraph C12 requires disclosure of an explanation of the differences between operating lease commitments disclosed under AASB 117 *Leases* at the end of the previous annual reporting period to the lease liabilities recognised in the statement of financial position at the date of initial application under AASB 16, together with the weighted average lessee's incremental borrowing rate applied to the lease liabilities recognised at the date of initial application. In addition, the entity must also disclose whether it has used any of the specified practical expedients when adopting AASB 16. This provides more relevant information than a disclosure of the adjustments recognised for each financial statement line item affected by the new accounting policy in paragraph 106(b) for the current and each prior period presented.

AASB Standards and Interpretations not covered in AASB 1060

BC88 There are a number of Standards that the Board decided not to address in this Standard for the following reasons:

(a) AASB 14 *Regulatory Deferral Accounts* as it would only be relevant for entities that have recognised regulatory deferral account balances under their current accounting policy (eg where the entity prepared SPFS without complying with the R&M of full AAS). None of the respondents to ED 295 identified any entities that intend to apply AASB 14 on transition to GPFS. The Board's decision also is consistent with IASB's view that it should not incorporate the requirements of IFRS 14 as part of the current comprehensive review of the *IFRS for SMEs* Standard[14];

(b) AASB 4 *Insurance Contracts*, AASB 17 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contarcts* and AASB 1056 *Superannuation Entities* are not addressed in this Standard as the majority of the entities applying these Standards would have public accountability by holding assets in a fiduciary capacity.

The Board acknowledged that AASB 4 and AASB 17 would also be applicable to entities such as 'captive insurers' which may not be publicly accountable and hence would be eligible to apply this Standard. These entities will have to provide the full disclosures of AASB 4 or AASB 17, as the disclosures in these standards have not been replaced by AASB 1060. However, the Board was of the view that 'captive insurers' deal only with insurance contracts within their own group and as a result are likely to have relatively simple insurance arrangements. They would therefore not be unduly impacted by the full disclosure requirements under these Standards.

In relation to AASB 1056, the Board concluded that superannuation entities are currently divided between Tier 1 entities and non-reporting entities (including Small Australian Prudential Regulation Authority (APRA) Funds (SAFs) and Self-Managed Superannuation Funds (SMSFs)). Accordingly, Tier 2 disclosures were not developed for these entities. The Board further noted that there is currently no legislative requirements for superannuation entities to prepare financial statements in accordance with AAS. Until such time as the legislation is changed, superannaution entities could therefore continue preparing SPFS and thus AASB 1056 has been excluded from this Standard.

(c) AASB 8 *Operating Segments* and AASB 133 *Earnings per Share* require disclosure of segment information and of earnings per share data only for entities which have debt or equity instruments that are traded, or are in the process of being issued for trading in a public market. These entities would have public accountability and, accordingly, the Board decided that these Standards are not applicable for Tier 2 entities. Instead, consistent with the *IFRS for SMEs* Standard, paragraph 33 refers back to these Standards and provides that an entity disclosing segment information or earnings per share must comply with AASB 8 or AASB 133 respectively in full.

(d) AASB 134 *Interim Financial Reporting* is applicable for the specific purpose of preparing interim financial reports and AASB 1039 *Concise Financial Reports* is applicable for the specific purpose of preparing concise reports under the Corporations Act 2001. AASB 1060 is intended to be used in the preparation of annual GPFS. Accordingly, the Board considered that AASB 134 and AASB 1039 are not relevant in relation to this disclosure Standard.

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(e) The majority of the disclosures from AASB 1054 are now covered in AASB 1060: paragraphs 7 and 8 of AASB 1054 are covered in paragraphs 10–11 of AASB 1060, paragraphs 10 and 11 of AASB 1054 are covered in paragraphs 98 and 99 of AASB 1060 as discussed in paragraph BC75 and paragraphs 12–15 of AASB 1054 are covered in paragraphs 100–103 of AASB 1060 as discussed in paragraphsBC83–BC84. Paragraph 9 of AASB 1054 will no longer be relevant as it refers to SPFS and paragraph 16 of AASB 1054 does not provide information about short-term cash flows, obligations, commitment, contingencies, liquidity or solvency and is therefore not required.

(f) AASB 1057 and AASB 1053 do not include any R&M or disclosure requirements and as a result have not been included in this Standard.

BC89 In assessing whether disclosure requirements of a particular AASB Interpretation would need to be added to AASB 1060, the Board has considered the following:

(a) If the Basis for Conclusions in the *IFRS for SMEs* Standard confirmed that particular interpretations had been incorporated in the *IFRS for SMEs* Standard, no further action was required.

(b) No action was required for interprations that have been superseded or do not have any disclosure requirements.

BC90 The Board further considered whether disclosure requirements from AASB Interpretations would need to be added to AASB 1060 but concluded this was not necessary for the following reasons:for the following reasons:

(a) AASB Interpretation 1019 *The Superannuation Contributions Surcharge* and AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* are not relevant for Tier 2 entities, as entities applying these interpretations would have public accountability by holding assets in a fiduciary capacity.

(b) The disclosures in AASB Interpretation 1052 *Tax Consolidation Accounting Disclosure* were excluded for RDR entities on the basis of cost-benefit considerations. In addition, as the interpretation is not creating any R&M differences to IAS 12, and therefore also not to the *IFRS for SMEs* Standard, the Board concluded that additional disclosures will not be required.

(c) The disclosure paragraphs in AASB Interpretation 23 *Uncertainty over Income Tax Treatments* do not introduce new disclosures, but refer to disclosures in the AASB 112 that are captured in paragraphs 96, 97 and 154 of AASB 1060.

(d) Two of the three disclosure paragraphs in AASB Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* were already excluded for Tier 2 entities on the basis of cost-benefit considerations. However, as there are also no R&M differences to the *IFRS for SMEs* Standard, the Board concluded that no additional disclosures would be required.

Not-for-profit private sector entities and public sector entities

BC91 As explained in paragraph BC51, the Board decided that AASB 1060 should be equally applicable to both for-profit and NFP private sector entities and any public sector entities that are eligible to report under Tier 2 based on the requirements in AASB 1053. The Board therefore also considered any NFP private sector and public sector entity differences in AAS and to what extent, if any, additional disclosures would be required for such Tier 2 entities.

BC92 In summary, the Board decided to:

(a) include additional disclosures for AASB 1, AASB 16, AASB 102 and AASB 123 to address R&M differences that are specific to NFP entities; and

(b) include additional disclosures for AASB 1004, AASB 1050, AASB 1051, AASB 1055, AASB 1058 and AASB 1059 which are only applicable for NFP private sector and/or public sector entities.

Consistent with the conclusions in paragraph BC53, the proposed disclosures reflect the fact that the relevant transactions and circumstances covered are unique to NFP private sector and/or public sector entities and that users would require information on non-financial accountability and stewardship, even if the broad principles in paragraph BC41 would not indicate such a need.

BC93 As a general rule, the Board considered that previous decisions made under the current RDR framework in relation to the cost vs the benefits of these disclosures in relation to Tier 2 NFP entities remain relevant.

Drafting conventions and future maintenance

BC94 While ED 295 used the numbering from the *IFRS for SMEs* Standard, the Board agreed to use consecutive paragraph numbers in this Standard consistent with the approach used in other AAS. To show the linkage to the *IFRS for SMEs* disclosures and allow easy comparison, equivalent IFRS for SMEs paragraph numbers are added at the end of each paragraph where applicable. Where paragraphs from the *IFRS for SMEs* Standard have been amended, the words 'based on' are used.

BC95 The Board further decided that the analysis tables developed for ED 295 (See *Detailed comparison of R&M requirements in IFRS for SMEs Standard and full IFRS and analysis of impact on disclosures – For for-profit private sector entities with no public accountability and Analysis of NFP modifications paragraphs in AAS and NFP specific AASB Standards* for detailed analysis) will include all the edits and mark-ups and will be used as an ongoing document for future reference. They will be a record of the rationale behind certain decisions and judgements and would facilitate any future amendments.

BC96 The Board also acknowledged that a review of the disclosures will need to take place any time the *IFRS for SMEs* Standard is updated, a new Australian Accounting Standard or Interpretation is issued or amendments are made to existing Australian Accounting Standards or Interpretations.

Transitional requirements

BC97 The Board considered whether specific transitional requirements needed to be added to AASB 1053 in relation to AASB 1060, but has concluded that this is not necessary for the following reasons:

(a) adjustments to recognised amounts will only arise where an entity did not previously report either under Tier 1 or Tier 2 (RDR); and

(b) the principles of transitioning to full R&M requirements are the same, regardless of the level of disclosures to be provided.

BC98 Therefore, the Board concluded that the transition requirements in paragraph 18A of AASB 1053 can be retained without further changes (except some changes required by AASB 2020-2 to clarify the scope of the paragraph for certain entities required to consolidate for the first time). However, the Board decided to add an explanatory paragraph 18C to AASB 1053 which confirms the different disclosures that apply to Tier 2 entities that apply this Standard.

BC99 The Board acknowledged that the adoption of this new Tier 2 Standard as such will not result in any adjustments to recognised amounts unless an entity has not previously complied with all R&M requirements of AAS and is preparing GPFS for the first time. Separate transition relief has been provided in Appendix E of AASB 1053 *Application of Tiers of Australian Accounting Standards* for entities moving from SPFS to Tier 2 GPFS when adopting the requirements of AASB 2020-2. Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC122−BC144.

BC100 The Board also decided to retain the requirements to explain how the adoption of AAS has affected the entity's financial position, financial performance and cash flows, and to disclose a description of each change in accounting policy, a reconciliation of the profit and loss for the latest period before adoption, and information about any errors noted in the context of the adoption (paragraphs 208, 210(c), 211 and 212 of this Standard) even though they were not previously required for RDR entities, to keep differences to the *IFRS for SMEs* Standard at a minimum.

Effective date

BC101 In proposing the effective date in ED 295, the Board had noted that the revised Conceptual Framework as issued by the IASB in March 2018 is effective for annual periods beginning on or after 1 January 2020 and that the regulations in relation to doubling of thresholds for large proprietary companies are applicable to financial years beginning on or after 1 July 2019.

BC102 With these factors in mind and in order to provide an option for large proprietary companies to early adopt AASB 1060, the Board had proposed that AASB 1060 should be ready for adoption latest by 30 June 2020, to be effective for annual periods beginning on or after 1 July 2020.

BC103 However, respondents to ED 295 and ED 297 expressed mixed views on the proposed effective date, with many recommending the Board defer the effective date of both standards by one to two years. After considering the arguments provided by stakeholders and various options, the Board ultimately decided to defer the effective date of both standards by one year to financial years beginning on or after 1 July 2021, with early adoption permitted.

BC104 Further discussion of the Board's consideration on this matter is available in AASB 2020-2 paragraphs BC145−BC153.