

Basis for Conclusions on AASB 2022-2

This Basis for Conclusions accompanies, but is not part of, AASB 1053. The Basis for Conclusions was originally published with AASB 2022-2 Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1.

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 the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 For periods beginning on or after 1 July 2021, certain for-profit-private sector entities can no longer apply the reporting entity concept or prepare special purpose financial statements (SPFS) when the financial statements are required (by legislation or an entity’s constituting or other document) to comply with Australian Accounting Standards or when legislation requires the financial statements to comply with accounting standards. This follows the issue of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Instead, entities within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). In addition, some of these entities may also be required to prepare consolidated financial statements for the first time if they historically applied the exemption in AASB 10 *Consolidated Financial Statements* that did not require the presentation of consolidated financial statements when neither the parent entity nor the group was a reporting entity.

Issue of Exposure Draft ED 315

BC3 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in November 2021 through Exposure Draft ED 315 *Extending Transition Relief under AASB 1*.

BC4 The significant issues considered by the Board in developing ED 315 are addressed in the following sections.

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

BC5 One subset of entities affected by the removal of SPFS is foreign-controlled proprietary companies. Historically, many of these entities have prepared SPFS. However, they are required to prepare GPFS for the first time for periods beginning on or after 1 July 2021.

BC6 When preparing their SPFS, these entities may or may not have complied with the recognition and measurement requirements in Australian Accounting Standards and may or may not have presented consolidated financial statements.

BC7 AASB 1053 *Application of Tiers of Australian Accounting Standards* provides transition relief for entities transitioning from SPFS to Tier 2 GPFS. The transition relief allows entities to apply either AASB 1 *First-time Adoption of Australian Accounting Standards* or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to the transition.

BC8 In principle, AASB 1 requires the retrospective application of all Australian Accounting Standards on transition to Australian Accounting Standards. However, AASB 1 establishes two categories of exceptions to this principle:

- (a) mandatory exceptions that prohibit the retrospective application of some aspects of other Australian Accounting Standards; and
- (b) optional exemptions from some requirements of other Australian Accounting Standards.

BC9 AASB 1 paragraph D16(a) contains an optional exemption that permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included

in the parent's consolidated financial statements. However, the exemption in paragraph D16(a) could only be applied where a parent entity has adopted Australian Accounting Standards and not where a parent entity has adopted International Financial Reporting Standards (IFRS Standards or IFRSs). This is the case even where compliance with IFRSs by the parent entity would result in the same outcome as compliance with Australian Accounting Standards.

- BC10 In many cases, affected foreign-controlled proprietary entities are subsidiaries of an overseas parent that prepares consolidated financial statements that include information about the entity and comply with IFRSs.
- BC11 The Board received feedback from stakeholders that being able to use the information included in their overseas parent's IFRS-compliant consolidated financial statements when preparing GPFS for the first time would provide a less costly approach to the transition of such subsidiaries to GPFS. For example:
- (a) the entity would not need to remeasure its assets and liabilities at its date of transition to Australian Accounting Standards;
 - (b) the entity would not need to apply AASB 1 to any historical business combinations; and
 - (c) the entity would not need to apply Australian Accounting Standards retrospectively where required by certain Australian Accounting Standards (e.g. AASB 16 *Leases*, if a modified retrospective approach to transition is adopted).

Instead, the entity would use the information already included in the overseas parent's consolidated financial statements.

- BC12 Further, in many cases, it is expected that IFRS-compliant information for the entity is already being prepared and possibly audited to assist the overseas parent in preparing its consolidated financial statements. If prepared, this information would be based on the parent's date of transition to IFRSs. Using this information would mean the entity would not be required to keep two sets of records – one based on the parent entity's date of transition to IFRSs for consolidation purposes and another based on the entity's date of transition to Australian Accounting Standards for its own reporting purposes.
- BC13 The Board observed that when the International Accounting Standards Board (IASB) included the optional exemption in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the objective of the exemption was to eliminate the need for subsidiaries to keep two parallel sets of records, which would be burdensome and not beneficial to users. The exemption was also expected to ease some practical problems associated with the transition to IFRSs. The IASB was also of the view that the exemption would not diminish the relevance and reliability of the subsidiary's financial statements because it permits a measurement that is already accepted in accordance with IFRSs in the consolidated financial statements of the parent.¹
- BC14 The Board considered that the objective of the exemption would still be met if the application of AASB 1 paragraph D16(a) was extended to include circumstances where an overseas parent has adopted IFRSs. Therefore, ED 315 proposed an amendment to AASB 1 to allow Australian entities to apply the exemption in AASB 1 paragraph D16(a) where their parent has adopted either Australian Accounting Standards or IFRSs.

Scope

- BC15 Although the Board's initial consideration of when the optional exemption could be applied (ie whether the exemption could be applied where a parent had adopted IFRSs, instead of Australian Accounting Standards) was in the context of entities transitioning from SPFS following the issue of AASB 2020-2, ED 315 did not propose limiting the scope of the proposed amendment to for-profit private sector entities. This was because the exemption in paragraph D16(a) could be applied by any for-profit entity or not-for-profit (NFP) entity that becomes a first-time adopter of Australian Accounting Standards later than its parent (subject to meeting the conditions of the exemption). The objective of the optional exemption as outlined in paragraph BC13 applies equally to all types of entities.

Entities transitioning to consolidated Tier 2 Simplified Disclosures financial statements

- BC16 Another subset of entities affected by the removal of the reporting entity concept is entities that were preparing unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements). That is, the GPFS complied with all the recognition and measurement requirements in Australian Accounting Standards without presenting consolidated financial statements, in accordance with an exemption in AASB 10. This includes some entities that are classified under Australian taxation legislation as “country-by-country reporting entities” (CBC entities).

¹ IFRS 1 Basis for Conclusions, paragraphs BC59–BC62.

- BC17 CBC entities are required to prepare GPFS to comply with their CBC reporting obligations to the Australian Taxation Office (ATO). However, some CBC entities that are parent entities maintained they were not reporting entities as defined in Australian Accounting Standards and continued to apply the exemption in AASB 10 that did not require the presentation of consolidated financial statements if neither the parent entity nor the group was such a reporting entity. The Board understands that this approach was acknowledged as an available option in ATO guidance.
- BC18 However, as the ‘reporting entity’ definition in Australian Accounting Standards no longer applies to certain for-profit private sector entities, including CBC entities, for periods beginning on or after 1 July 2021, these entities can no longer apply the consolidation exemption in AASB 10. Instead, they will be required to prepare consolidated financial statements under AASB 10 for the first time.
- BC19 The Board noted that such entities were not required to present consolidated financial statements in prior periods as outlined in paragraph BC17. Further, their most recent Tier 2 GPFS complied with all relevant recognition and measurement requirements in Australian Accounting Standards. The Board acknowledged an absence of specific guidance in Australian Accounting Standards for these entities.
- BC20 However, the Board noted that specific guidance was included in AASB 1053 (paragraph 18A(b)) to explicitly allow entities that were preparing SPFS on the same basis – that is, their SPFS complied with all the recognition and measurement requirements without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity – to apply AASB 1, including the relief for the first-time preparation of consolidated financial statements set out in Appendix C, to their transition to Tier 2 GPFS.
- BC21 The Board previously considered whether the transitional relief in paragraph 18A(b) should also be extended to entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS. However, when finalising AASB 2020-2, the Board decided that it would not be appropriate to extend the transition relief at that time as the extent to which entities would be affected was unknown, although it was expected to be limited. Furthermore:
- (a) the Board expected that such entities should already have comprehensive IFRS-compliant information available to help produce consolidated financial statements, as the entity would be reporting that information to its parent; and
 - (b) entities that previously were preparing SPFS instead would be required to provide new additional disclosures as well as potential changes to recognition and measurement requirements, and hence it could be argued that not having such other challenges would mean entities already preparing GPFS would have enough resources to consolidate retrospectively.²
- BC22 Following the issue of AASB 2020-2, the Board received feedback from stakeholders expressing concern that it was unclear whether entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS were able to apply AASB 1, as there was no specific guidance in Australian Accounting Standards to explain the basis on which their first consolidated financial statements should be prepared. Therefore, Australian Accounting Standards could be read to require such entities to apply the consolidation requirements fully retrospectively. Stakeholders were concerned about this, based on their view that many of these entities do not have sufficient information to retrospectively consolidate as information might be prepared at a higher group level that is not relevant at the level of the ultimate Australian parent entity. Further, stakeholders were also concerned about the ability for comparative information to be audited retrospectively.
- BC23 Although the Board previously considered this matter as noted in paragraph BC21, as the subsequent feedback was inconsistent with the Board’s expectations, ED 315 proposed providing explicit relief to also allow entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.
- BC24 The Board acknowledged that proposing this transition relief would allow entities to potentially restate previously recognised amounts in accordance with AASB 1, even though the previous Tier 2 – Reduced Disclosure Requirements GPFS complied with all recognition and measurement requirements without presenting consolidated financial statements. However, the Board noted that this outcome is consistent with the application of the relief available in AASB 1053 paragraph 18A(b) for entities that were preparing SPFS on the same basis (ie their SPFS complied with all the recognition and measurement requirements, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity).

² AASB 2020-2 Basis for Conclusions, paragraph BC142.

Scope

- BC25 Although both for-profit and NFP entities are affected by the replacement of Tier 2 – Reduced Disclosure Requirements with Tier 2 – Simplified Disclosures, NFP entities are not affected by the removal of SPFS and the reporting entity definition in Australian Accounting Standards at this stage. Therefore, NFP entities can continue to consider themselves to be non-reporting entities and prepare single-entity Tier 2 – Simplified Disclosures GPFS, applying the exemption in AASB 10 if relevant.
- BC26 For this reason, the Board decided the Tier 2 transition relief proposed in ED 315 should be consistent with the scope of AASB 2020-2 and should therefore be limited to certain for-profit private sector entities.

Finalisation of ED 315 proposals

- BC27 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 315.
- BC28 The Board received seven formal comment letters on ED 315. The feedback received indicated that, in general, most respondents supported the proposals. However, some respondents provided additional feedback, which is considered in the following paragraphs.

Amendments to AASB 1

Application of the optional exemption by NFP entities

- BC29 As the optional exemption in AASB 1 paragraph D16(a) can be applied by both for-profit and NFP entities, in the absence of a specific limitation to for-profit entities, one stakeholder questioned how a NFP entity might apply the optional exemption (including the proposed amendment) given the recognition and measurement differences between IFRSs and Australian Accounting Standards as they apply to NFP entities.
- BC30 The Board considered this feedback but decided that no changes to the proposed amendment were necessary. The Board acknowledged that compliance with IFRSs might not result in compliance with Australian Accounting Standards as they apply to NFP entities, where NFP-specific recognition and measurement requirements in Australian Accounting Standards are relevant to an entity. The Board noted that a NFP entity would be unable to apply the optional exemption when transitioning to Australian Accounting Standards in relation to amounts included in a parent's IFRS-compliant consolidated financial statements that do not comply with Australian Accounting Standards as they apply to NFP entities. NFP entities are required to comply with the applicable NFP requirements in Australian Accounting Standards when transitioning to those Standards, subject to any specific exceptions and exemptions in AASB 1.
- BC31 The Board noted that this outcome is consistent with how the optional exemption is currently being applied in some circumstances. For example, a NFP entity is unable to apply the optional exemption to assets and liabilities where the amounts included in the parent's consolidated financial statements do not comply with Australian Accounting Standards as they apply to NFP entities. This could occur where a NFP entity has a for-profit parent that prepares consolidated financial statements for the mixed group (ie a group that includes both for-profit and NFP entities) using accounting policies appropriate to for-profit entities.

Compliance with IFRSs

- BC32 One stakeholder provided feedback that, in their view, the proposed amendment to AASB 1 paragraph D16(a) was too narrow because the optional exemption could only be applied where a parent entity prepares financial statements that comply with IFRSs, and not where a parent entity prepares financial statements that comply with IFRS-equivalent Standards but do not include a statement of compliance with IFRSs.
- BC33 Although the Board considered there could be merit in permitting the proposed amendment to be applied in circumstances where a parent's financial statements comply with IFRS-equivalent Standards rather than IFRSs, the Board decided not to make such a change. The Board noted that referring only to IFRSs as proposed in ED 315 is consistent with the approach to first-time adoption in AASB 1. The Board was also concerned about potential unintended consequences if the proposed amendment could be applied where a parent entity prepared financial statements that complied with IFRS-equivalent Standards, including possible difficulties in determining which standards are considered IFRS-equivalent Standards.

Other amendments

- BC34 Following feedback from stakeholders, the Board also decided to amend:
- (a) AASB 1 paragraph D13A, for consistency with the amended paragraph D16(a); and
 - (a) AASB 1 paragraph D17, to allow an entity that becomes a first-time adopter of Australian Accounting Standards in its consolidated financial statements later than its subsidiary (or associate or joint venture) to use the amounts included in the subsidiary's (or associate's or joint venture's) separate financial statements where the subsidiary (or associate or joint venture) has already adopted either Australian Accounting Standards or IFRSs, subject to consolidation, equity accounting and business combination adjustments.

Amendment to AASB 1053

- BC35 As noted in paragraph BC28, most respondents to ED 315 supported the proposed amendment to AASB 1053. However, two respondents suggested that the proposed amendment was unnecessary. In summary, these respondents suggested that because the unconsolidated GPFS are separate financial statements, the entity would be applying Tier 2 requirements in the consolidated financial statements for the first time (if they have not prepared consolidated financial statements in the past). Therefore, the entity could use AASB 1 without the proposed amendment, as they would be a first-time adopter of Australian Accounting Standards in the consolidated financial statements. This is because an entity can be a first-time adopter in relation to a set of financial statements – for example, its separate financial statements or consolidated financial statements – rather than in relation to the entity as such.
- BC36 The Board noted that AASB 1 paragraph D17, although written in the context of a parent becoming a first-time adopter later than its subsidiary, appears to support the view that distinct 'first-time adoptions' are possible for an entity's separate financial statements and for its consolidated financial statements. Paragraph D17 states that "... if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments."
- BC37 The Board considered this feedback and decided to proceed with the proposed amendment to AASB 1053. Although the Board acknowledged that the proposed amendment might not be strictly necessary due to the requirements in AASB 1 paragraph D17, the Board considered that the amendment:
- (a) is helpful to stakeholders because it clarifies that an entity can apply AASB 1 on transition from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS;
 - (b) is consistent with the approach adopted by the Board in AASB 2020-2 for entities transitioning from SPFS to Tier 2 GPFS; and
 - (c) provides entities with an accounting policy choice that would otherwise be unavailable; that is, they can choose whether to apply AASB 1 or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to their transition.
- BC38 Two stakeholders also provided feedback suggesting that the proposed paragraph 20A of AASB 1053 should also be available to NFP entities. The stakeholders suggested that broadening the scope of the amendment would avoid any unforeseen effects on NFP entities that are currently preparing unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS and that might decide to transition to consolidated Tier 2 – Simplified Disclosures GPFS.
- BC39 The Board acknowledged this feedback but reconfirmed its view that as NFP entities are not affected by the removal of SPFS and the 'reporting entity' definition in Australian Accounting Standards at this stage, they can continue to consider themselves to be non-reporting entities and prepare single-entity Tier 2 – Simplified Disclosures GPFS, applying the exemption in AASB 10, if appropriate. For this reason, the Board decided no changes to the proposed AASB 1053 amendment were necessary.

Effective date

- BC40 The Board confirmed that, consistent with the effective date of AASB 2020-2 for most entities, the amendments would be effective for annual periods ending on or after 30 June 2022, with earlier application permitted, as proposed in ED 315.