

Basis for Conclusions on AASB 2022-4

This Basis for Conclusions accompanies, but is not part of, AASB 1054. The Basis for Conclusions was originally published with AASB 2022-4 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities.

Introduction

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the bases for the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.
- BC2 In setting out the Board’s reasons for issuing this Standard, the following section includes the historical context and the relationship of the project that gave rise to this Standard to similar Board projects pertaining to different types of entities. Later sections then:
- (a) summarise the rationale for the pertinent proposals that were exposed for public comment in Exposure Draft ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*, which led to the development of this Standard; and
 - (b) explain why some ED 302 proposals and some views expressed by respondents to ED 302 (particularly those not adequately addressed in the Basis for Conclusions on ED 302) were not adopted in the Standard.

Reasons for issuing this Standard

- BC3 In 2018 the Board initiated a broad project to address the issues associated with special purpose financial statements (SPFS) reporting in the for-profit private sector.¹ As part of that project, the Board proposed, through Exposure Draft ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (August 2019), to remove the option for some types of for-profit private sector entities to prepare SPFS when they are required to comply with Australian Accounting Standards (AAS). ED 297 proposed an operative date of annual reporting periods beginning on or after 1 July 2020 and led to the issue of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (March 2020). AASB 2020-2, operative instead for reporting periods beginning on or after 1 July 2021, made amendments to AAS to disallow the preparation of SPFS by the following entities (and, consistent with that, to also remove the ‘reporting entity’ concept for them):
- (a) entities required by legislation to prepare financial statements that comply with either AAS or accounting standards; and
 - (b) entities required by their constituting document or another document to prepare financial statements that comply with AAS, provided the relevant document was created or amended on or after 1 July 2021 (to coincide with AASB 2020-2’s operative date).
- The Basis for Conclusions accompanying AASB 2020-2 explains the Board’s reasons for the decisions it made in that Standard and provides more information about the issues with SPFS reporting. (The Basis for Conclusions is also published with AASB 1057 *Application of Australian Accounting Standards*.)
- BC4 Given the limited scope of AASB 2020-2, the problems associated with SPFS prepared by for-profit private sector entities that are required to prepare financial statements that comply with AAS were not entirely resolved. This is because AASB 2020-2:
- (a) did not become immediately operative (AASB 2020-2 was issued in March 2020); and
 - (b) contains an exemption that allows for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS to continue preparing SPFS if the relevant document was created before 1 July 2021 and not amended on or after that date.

¹ Public sector entities were excluded from the scope of this broad project because the Board had a separate project addressing the public sector financial reporting framework.

- BC5 The continued preparation of SPFS that state compliance with AAS without further explanation, whether temporarily (until an entity transitioned to general purpose financial statements (GPFS) in accordance with AASB 2020-2) or for the foreseeable future (in relation to entities referred to in paragraph BC4(b)), remained a concern to the Board. Consistent with the *AASB Evidence-Informed Standard-Setting Framework*, the Board decided to address its concern by considering whether to issue a Standard having regard to the evidence it gathered through outreach to stakeholders and other forms of research. That research evinced users' clearly stated views on the importance of understanding the recognition and measurement (R&M) basis of preparation of financial statements. The Board also noted the findings of AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019), which indicated the current deficiencies in clearly reporting the basis of preparation in SPFS (see also paragraphs BC20-BC22 of the Basis for Conclusions on AASB 2020-2).
- BC6 The Board noted some stakeholders were concerned about a lack of research-based evidence that demonstrates disclosure requirements would assist users' understanding of SPFS prepared by entities within the scope of this Standard. This concern arose because AASB Research Report 12 is based on data relating to entities within the scope of AASB 2020-2, rather than the types of entities referred to in paragraph BC4(b), and in any event it predates the change in proprietary company reporting thresholds under the *Corporations Act 2001* and therefore does not provide any current analysis. However, the Board came to the view that the Research Report provides evidence by analogy as there is no basis to expect that SPFS of the types of entities referred to in paragraph BC4(b) would have adopted better disclosure practices than the SPFS of the types of entities that were the focus of the Research Report (see paragraph BC7). Furthermore, the evidence provided by the Research Report was supplemented by the findings of outreach undertaken in December 2018 to understand users' views as part of improving the Australian Financial Reporting Framework, which was considered by the Board at its April 2020 meeting (see paragraph BC8).
- BC7 AASB Research Report 12 indicated that for 34% of examined entities preparing and lodging SPFS with the Australian Securities and Investments Commission (ASIC) in 2018, the extent of compliance with R&M requirements in AAS was not clear. After a detailed, qualitative assessment of the accounting policies of these unclear SPFS by the researchers, Research Report 12 concluded:
- (a) 10% of the total population of SPFS did not appear to be following all R&M requirements in AAS, despite only 0.5% of the total clearly stating so;
 - (b) 76% appeared to follow all R&M requirements in AAS; and
 - (c) the extent of compliance (or otherwise) with the R&M requirements in AAS of the remaining 14% of SPFS was unclear.
- BC8 The December 2018 research conducted via a survey of users of financial statements prepared by for-profit private sector entities found:
- (a) on average, 93% of primary users and more than 95% of other users said comparability, transparency, comprehensibility and consistency are what they need most in financial statements; and
 - (b) only 43% of primary users and 56% of other users said they are satisfied with the information presented in SPFS.
- Respondents to this survey were generally involved with entities within the scope of AASB 2020-2, although there were a number involved with the types of entities referred to in paragraph BC4(b), such as limited partnerships, incorporated associations and trusts. On that basis, the Board concluded the findings of the research are relevant in supporting the Board's view that users of SPFS prepared by entities within the scope of this Standard would benefit from specific SPFS disclosure requirements.
- BC9 In light of ED 297's limited scope and anticipating the proposals in ED 297 would not be reflected in a Standard for some time after ED 297 was published for comment, the Board had also issued Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (July 2019). ED 293 proposed requiring for-profit and not-for-profit private sector entities lodging SPFS with either the ASIC or the Australian Charities and Not-for-profits Commission (ACNC) to disclose information in their SPFS that would allow users to understand the extent of compliance or otherwise of the entity's accounting policies with the R&M requirements in AAS.²
- BC10 The feedback received on ED 293 indicated the majority of respondents agreed the proposals would increase the transparency and comparability of SPFS. However, due to the short time within which the proposed requirements would become mandatory in light of the expected timing of the release of a Standard based on ED 297's proposals, respondents were particularly concerned about the costs of the proposals exceeding any

² In relation to for-profit private sector entities, the proposals were developed as an interim measure while the Board continued with its ED 297 proposals.

benefits for for-profit private sector entities. This is because the proposal in ED 297 to remove the ability for certain for-profit private sector entities to prepare SPFS when they are required to comply with AAS was expected to be completed and, as noted in paragraph BC3, operative for annual reporting periods beginning on or after 1 July 2020.

- BC11 After considering this feedback, the Board decided at that time the proposals in ED 293 should apply only to not-for-profit private sector entities. The Board decided it would revisit the application of the proposals in ED 293 for for-profit private sector entities if the proposals in ED 297 were not finalised as proposed. Consequently, the Board issued AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* (November 2019), operative for annual reporting periods ending on or after 30 June 2020.
- BC12 As indicated in paragraph BC3, the Board decided the effective date of AASB 2020-2 should be one year later than what was proposed in ED 297. It arrived at this decision after considering feedback from respondents to ED 297 that entities needed more time to prepare for the implementation of the proposals – see also the reasons noted in paragraph BC149 of the Basis for Conclusions on AASB 2020-2. As a consequence of the deferral of the effective date, the Board decided it was necessary to revisit the proposals in ED 293 in relation to for-profit private sector entities that were not yet required to apply AASB 2020-2, as well as for the types of entities referred to in paragraph BC4(b). Consequently, ED 302 was issued in June 2020, which as noted in paragraph BC2 led to the development of this Standard.

Issue of Exposure Draft ED 302

- BC13 The significant issues considered by the Board in developing ED 302 that are pertinent to this Standard are addressed in this section.

Scope

- BC14 When considering which for-profit private sector entities should be required to make the ED 302 proposed disclosures,³ the Board considered whether the disclosures should be required by:
- (a) only those entities preparing SPFS that are directly subject to AASB 1054 *Australian Additional Disclosures* (for example, an entity with a direct reference to application of AASB 1054 in its trust deed); or
 - (b) those for-profit private sector entities that are required by legislation (eg Part 2M.3 of the *Corporations Act 2001* or other legislation) to prepare financial statements that comply with either AAS or accounting standards, and other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with AAS provided the relevant document was created before 1 July 2021 and not amended on or after that date; or
 - (c) those entities referred to in option (b), with a threshold to limit the requirements to those entities that would meet the requirements to be considered a large proprietary company under the *Corporations Act*; or
 - (d) those entities referred to in option (b), but only where their SPFS state they have been prepared in compliance with AAS.
- BC15 For the purposes of ED 302, the Board decided to propose option (b), noting:
- (a) option (a) would not achieve the objective of the proposed amendments as it would not include all entities with a non-legislative requirement to prepare financial statements that comply with AAS;
 - (b) option (c) was not the most appropriate alternative as it would be relatively complex to apply. It would also add to the overall complexity of AAS because it would result in exemptions for certain entities that are already subject to exemptions (in particular, the scope exemptions from the removal of SPFS for for-profit private sector entities made in AASB 2020-2);
 - (c) option (d) was not the most appropriate alternative for similar reasons to option (c). In addition, the Board was concerned this option might allow any resulting disclosure requirements to be readily circumvented simply through non-disclosure of compliance with AAS, despite an entity's constituting document requiring compliance with AAS without explicitly requiring disclosure of compliance with AAS; and

³ With limited exceptions, consistent with transaction neutrality the proposed disclosures in ED 302 for for-profit entities were based on the disclosures specified in AASB 2019-4 for not-for-profit entities.

(d) in adopting option (b), the Board did not expect the proposed disclosures in ED 302 to be onerous. However, it acknowledged that implementing option (b) in paragraph BC14 by making amendments to the application of AASB 1054 (via AASB 1057) would result in a number of entities becoming subject to AASB 1054 for the first time. Furthermore, the Board noted AASB 1054 specifies disclosures that are potentially beyond the scope of the project that gave rise to this Standard. For this reason, ED 302 proposed limiting the application of the existing disclosure requirements in AASB 1054 for those entities preparing SPFS. Consequently, ED 302 proposed that such entities should only be required to comply with proposed paragraph 9C (and paragraph 9D referring to implementation guidance is also relevant) in applying AASB 1054. That approach would leave it to the entities to decide with which other disclosure requirements in AAS to comply, based on their assessment of the needs of the users of their SPFS.

BC16 ED 302 also proposed specific amendments to paragraph 2 of AASB 1057 to extend the set of entities to which AASB 1057 applies. This was necessary in order to extend the set of entities to which AASB 1054 applies and give effect to option (b) in paragraph BC14. The amendments to AASB 1057 proposed in ED 302 would not extend the application of any other AAS to the for-profit private sector entities covered by the proposals (see also paragraphs BC19-BC21).

Disclosure of the basis on which the decision to prepare SPFS was made

BC17 ED 302 proposed that an entity be required to disclose an explanation for why SPFS had been prepared, for the same reasons articulated in paragraph BC24-BC26 of the Basis for Conclusions on AASB 2019-4 (which is published with AASB 1054) and consistent with the existing responsibilities of those charged with governance with respect to the selection and application of an entity's financial reporting framework. In drafting the proposed illustrative examples to accompany ED 302, the Board did not use the phrase 'not a reporting entity' to explain why the entity had prepared SPFS. Consistent with AASB 2020-2 limiting the application of the reporting entity concept by for-profit private sector entities, the Board considered entities need to more clearly articulate the reasons why they prepare SPFS. Reasons why SPFS have been prepared may include users of the financial statements being in a position to command the information they require.

Disclosure of accounting policies

BC18 The Board noted many entities within the scope of the proposed amendments in ED 302 were not required by AAS to disclose information about the accounting policies applied in their SPFS. Without this, information about the extent of the entity's compliance or otherwise with the R&M requirements in AAS might be incomplete. Therefore, the Board decided to include in ED 302 a proposal to require entities to disclose information about the material accounting policies applied, including the measurement basis (or bases) used and information about changes in those accounting policies, such as the nature of the change and the reasons why the change was made.

BC19 The Board noted that entities required by legislation to prepare financial reports in accordance with AAS or accounting standards are generally required to comply with 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, even in preparing SPFS. For example, this is specified in paragraph 7 of AASB 1057 for entities within the scope of Part 2M.3 of the Corporations Act. Entities registered with the ACNC are also specifically required to comply with those Standards by the *Australian Charities and Not-for-profits Commission Act 2012*. However, such requirements do not apply to entities within the scope of this Standard, which simply have a reference to AAS in their constituting or other documents, rather than in legislation.

BC20 In that regard, the Board considered proposing to expand the scope of AASB 101, AASB 107, AASB 108 and AASB 1048 consistent with the proposed expanded scope of AASB 1054, but decided not to do so. This was because, while the Board saw merit in this approach, requiring all entities within the scope of the proposed amendments to AASB 1054 to comply with all the requirements contained in those Standards was considered too onerous.

BC21 The Board also noted that if the approach considered in paragraph BC20 were to be adopted, as the Standards referred to in that paragraph contain certain R&M requirements (such as accrual accounting and applying the going concern basis of preparation), this would then impose a requirement on all entities within the scope of the proposed amendments to adopt minimum R&M requirements. The Board concluded setting minimum R&M requirements in SPFS was beyond the objective of ED 302 (and beyond the objective of this Standard).

Disclosures regarding compliance with all the R&M requirements in AAS

- BC22 Both *The AASB's For-Profit Entity Standard-Setting Framework* (May 2018) and *The AASB's Not-for-Profit Entity Standard-Setting Framework* (May 2018) are predicated on transaction neutrality, that is, like transactions and events should be accounted for in a like manner by all types of entities, unless there is a justifiable reason not to do so.
- BC23 The Board considered whether it was appropriate to propose for-profit private sector entities within the scope of ED 302 should make the same disclosures regarding their material accounting policies as those required by not-for-profit private sector entities through AASB 2019-4, or whether for-profit private sector entities should be required to make different disclosures. Most significantly, the Board noted AASB 2019-4 contains options for a not-for-profit private sector entity to disclose in its SPFS that it has not assessed certain aspects that would otherwise be required to be assessed and disclosed. Those aspects are:
- (a) whether or not the entity's interests in other entities give rise to interests in subsidiaries, associates or joint ventures for financial reporting purposes; and
 - (b) whether or not the entity's material accounting policies comply with the R&M requirements in AAS.
- BC24 These options were included in AASB 2019-4 because:
- (a) for entities in the not-for-profit private sector, disclosure of compliance might be unduly burdensome, such as where entities are not required to determine whether they have subsidiaries in accordance with AASB 10 *Consolidated Financial Statements* to assess their financial reporting requirements (paragraph BC32 of the Basis for Conclusions on AASB 2019-4); and
 - (b) allowing an entity to make a no-assessment disclosure would require minimal additional effort, but would highlight potential instances of non-compliance with the R&M requirements in AAS to users of the SPFS, as well as potential governance issues, and would also allow users of the SPFS to seek additional information if required (paragraph BC51 of the Basis for Conclusions on AASB 2019-4).
- BC25 The Board acknowledged those for-profit private sector entities with a non-legislative requirement to prepare financial statements that comply with AAS might benefit from being able to disclose they have not assessed compliance with certain AAS requirements, for reasons consistent with those noted in paragraph BC24. However, the Board took the view for-profit private sector entities typically would be expected to have access to the resources necessary to make the required assessments and should therefore have an understanding of the R&M requirements in AAS under a good-governance approach to financial reporting. The Board also considered that while many of these entities might be small in size, they typically would not have overly complex accounting requirements or transactions in this case, and this assessment would therefore be relatively straightforward.
- BC26 The Board considered that the reasons outlined in paragraphs BC24 and BC25 meet the requirements of the standard-setting frameworks as justifiable reasons why for-profit and not-for-profit private sector entities should have different disclosure requirements.
- BC27 The Board also noted that although it did not expect these disclosures to be onerous for for-profit private sector entities, those entities would still have the option of changing their constituting or other documents to avoid reference to AAS should they wish to do so, which would scope them out of this Standard.

Operative date

- BC28 ED 302 proposed an operative date of annual reporting periods ending on or after 30 June 2021. The Board considered this date would result in those entities with a legislative requirement to comply with AAS or accounting standards being required to include the disclosures in their SPFS for one year before they would be required to transition to GPFS under AASB 2020-2. Other entities, with a non-legislative requirement to comply with AAS, would also be required to comply promptly, thereby meeting the needs of users of SPFS in a timely way. The Board was of the view that compliance with R&M requirements is part of good governance and a number of these entities should already be complying with R&M requirements, and therefore the proposals would not be onerous.
- BC29 The Board also noted that, when deciding the effective date of AASB 2019-4 for not-for-profit private sector entities, it was not necessary to provide an extended operative date as the amendments did not require entities to change their existing accounting policies. At the time of issuing ED 302, the Board's view was that the rationale adopted for the operative date of AASB 2019-4 would also apply in the for-profit private sector context. On considering the comments from respondents to ED 302 on this matter and taking into account

other factors, the Board decided to defer the proposed operative date of this Standard, as explained in paragraphs BC33 and BC34.

Outcome of ED 302

BC30 Following the consultation period, and after considering stakeholder comments, the Board decided to proceed with the proposals in ED 302, but with some significant changes. The Board's bases for the proposals it decided to retain are articulated in the Basis for Conclusions accompanying ED 302, and are summarised here in paragraphs BC3-BC27. Accordingly, as noted in paragraph BC2(b), after providing an overview of the feedback received on ED 302, the remainder of this Basis for Conclusions focuses primarily on the significant proposals in ED 302 that the Board decided to change, and the rationale for doing so. It also addresses some issues raised by respondents to ED 302 that, although they did not give rise to changes to the proposals, warrant further explanation.

Feedback from respondents on ED 302

BC31 The Board received 13 formal comment letters on ED 302, with a mix of views from respondents.

BC32 A number of respondents expressed concern that the cost of implementing the ED 302 proposals would exceed any benefits. This was particularly the case for those for-profit private sector entities with a legislative requirement to comply with AAS, given the proposals for these entities were proposed to be effective from 1 July 2020 and therefore would apply for only one year. This was because, as noted above, the amendments in AASB 2020-2 removed the ability of these entities to prepare SPFS for annual reporting periods beginning on or after 1 July 2021.

BC33 A number of respondents also expressed concern that the proposed effective date of 1 July 2020 would provide insufficient time for entities to prepare for the new requirements. Furthermore, some respondents suggested delaying the proposed effective date to align with the operative date of AASB 2020-2. This would effectively exclude entities with a legislative requirement to comply with AAS from the scope of the proposals as well.

BC34 The Board considered this feedback and decided, for the reasons noted in paragraphs BC38 and BC39, it was appropriate to delay the effective date of the final amendments and in doing so exclude those entities with a legislative requirement to comply with AAS or accounting standards from the scope of the Standard.

BC35 Other significant matters considered by the Board in making this and other decisions are addressed below.

Scope

BC36 The Board decided this Standard should apply only to those for-profit private sector entities required only by their constituting document or another document to prepare financial statements that comply with AAS, provided the relevant document was created before 1 July 2021 and not amended on or after that date. In paragraph BC85 of the Basis for Conclusions on AASB 2020-2, the Board explained that these entities were excluded from the scope of AASB 2020-2 and therefore permitted to continue preparing SPFS because they prepare financial statements for specific users, have no external regulator and the financial statements are not lodged on the public record. However, the Board remained concerned about the lack of transparency of SPFS that continue to refer to AAS. As a result, to help ensure users are adequately informed, it came to the view the SPFS of these entities should be required to disclose information about the extent of their compliance or otherwise with the R&M requirements in AAS. In addition, the Board noted anecdotally there would be some types of entities, such as securitised trading trusts, outside the scope of AASB 2020-2 (and therefore permitted to continue preparing SPFS) but lodging SPFS on the public record that are required only by their constituting document or another document to comply with AAS. Accordingly, in the absence of this Standard, there would be publicly available SPFS that do not necessarily specify whether or not they comply with R&M requirements of AAS, despite being required by a constituting or other document to comply with AAS. The Board was concerned this would not satisfy the needs of users.

BC37 The Board also considered whether to broaden the scope of the requirements in this Standard to other entities that are not currently within the application paragraphs of AAS set out in AASB 1057, such as entities voluntarily preparing SPFS or entities preparing SPFS due to a requirement in their constituting document or another document to present a 'true and fair view' or to comply with 'GAAP' (whether generally accepted accounting principles or generally accepted accounting practices), without those terms being explicitly defined or specified as AAS. However, the Board decided the scope of this Standard should not include such entities for the same reasons it did not include them in the application paragraphs of AAS (see paragraph BC79 of the Basis for Conclusions on AASB 2020-2).

- BC38 As noted in paragraph BC34, the Board decided to exclude from the scope of this Standard for-profit private sector entities required by legislation to prepare financial statements that comply with either AAS or accounting standards (ie entities within the scope of AASB 2020-2). This acknowledges what would otherwise be a short-term effect of the proposals in ED 302 for these entities, caused by delays in the issue of this Standard due to the COVID-19 pandemic's impact on the Board's work program. The Board noted that, at the time of issuing ED 302, the implications of COVID-19 could not have been predicted. The basis for this decision is consistent with the reason for the earlier decision to exclude for-profit private sector entities from the scope of AASB 2019-4 (see paragraph BC47 of the Basis for Conclusions on AASB 2019-4).
- BC39 The Board concluded that excluding these entities from this Standard would allow them to use the extra time to prepare for transitioning to GPFS in accordance with AASB 2020-2 and it would be a reasonable and pragmatic way of providing some resource relief during the pandemic. The Board also concluded excluding these entities would have a limited adverse effect on users and, on that basis, the Board accepted the practical arguments expressed by some stakeholders that the introduction of new disclosure requirements for these entities would add unreasonable incremental time to prepare and audit SPFS for years ending on or after 30 June 2021.

Disclosure regarding the reporting framework and whether the financial statements are general purpose or special purpose

- BC40 In addition to the proposed disclosure requirements in ED 302 that the Board decided to incorporate into this Standard, as noted in paragraph BC15(d), the Board considered whether selected pre-existing disclosure requirements in AASB 1054 should be required of entities within the scope of this Standard. In particular, the Board considered whether paragraphs 8 and 9 of AASB 1054 (relating to disclosure of the reporting framework under which the financial statements are prepared and whether the financial statements are SPFS or GPFS) should be required. As part of its consideration, the Board noted similar disclosures required by AASB 2019-4 apply only to not-for-profit private sector entities that were already within the scope of AASB 1054, whereas the scope of this Standard includes entities not previously within the scope of AASB 1054. Despite this, the Board concluded paragraphs 8 and 9 of AASB 1054 are consistent with the objective of this Standard and help describe the basis of accounting. Accordingly, the Board decided paragraphs 8 and 9 of AASB 1054 would provide useful information at minimal cost as this information is expected to be readily available to an entity. The Board further noted that in order to make the disclosure required by paragraph 9C(a) of AASB 1054 (ie "to disclose the basis on which the decision to prepare SPFS was made"), the information that is the subject of paragraphs 8 and 9 of AASB 1054 would need to be considered by the entity anyway.

Disclosure regarding accounting policies for joint operations

- BC41 Some respondents to ED 302 expressed a view that joint operations within the scope of AASB 11 *Joint Arrangements* should be excluded from the requirement to disclose overall compliance with R&M requirements. They argued this by analogy with how ED 302 proposed dealing with disclosures about an entity's accounting policies relating to subsidiaries, associates and joint ventures. The Board concluded that an exclusion for joint operations (in addition to the exclusion for subsidiaries, associates and joint ventures) is not required and would not be appropriate. This is because paragraph 20 of AASB 11 requires a joint operator, being the entity preparing the financial statements (whether consolidated or unconsolidated), to recognise its share of the assets, liabilities, revenue and expenses in a joint operation – and therefore it is clearly an R&M requirement. The Board also noted paragraph 21 of AASB 11 clarifies that the requirements relating to the entity's share of those amounts are accounted for in accordance with the requirements (including R&M) of other relevant AAS. The definition of a joint operation also confirms this, on the basis that it refers to the entity's rights and obligations to the assets and liabilities. Therefore, non-compliance with AASB 11 as it applies to joint operations would be a clear non-compliance with R&M requirements in AAS.
- BC42 Given the nature of joint operations, their accounting treatment is fundamentally different from that of subsidiaries, associates and joint ventures. As such, it would be inappropriate to also exclude them from the overall R&M disclosure required by this Standard, potentially implying they are not R&M requirements. The Board also noted that paragraphs 9C(e) and 9C(f) of this Standard are consistent with paragraph 9C(d), which also does not refer to AASB 11.

Disclosure regarding subsidiaries, investments in associates or investments in joint ventures

- BC43 The Board considered whether an entity that has no subsidiaries, investments in associates or investments in joint ventures should be required to make an explicit statement to this effect. The Board had considered the

same issue in the context of not-for-profit private sector entities in the development of AASB 2019-4. At that time the Board noted entities preparing either Tier 1 or Tier 2 GPFS are not required to make such a statement. Consistent with that, the Board decided an explicit statement would not be required in SPFS of not-for-profit private sector entities, as noted in paragraph BC30 of the Basis for Conclusions on AASB 2019-4. The Board also noted that, in any event, users of financial statements could reasonably be expected to be able to discern from the absence of the other disclosures (eg paragraph 9C(d) of AASB 1054, which results in disclosures only when the entity has interests in other entities) that the entity has no subsidiaries or interests in associates or joint ventures. Therefore, the Board concluded that an explicit statement for entities within the scope of this Standard should not be required.

Disclosures regarding compliance with all the R&M requirements in AAS

- BC44 The Board noted the view that the disclosure requirement in paragraph 9C(f) of this Standard – overall compliance with R&M requirements in AAS – is redundant given the disclosure requirement in paragraph 9C(e) about each material accounting policy that does not comply with AAS R&M requirements. In response, the Board noted that, like AASB 2019-4, this Standard follows a two-step approach (first paragraph 9C(e) and then paragraph 9C(f)) to assessing and disclosing compliance or otherwise with the R&M requirements in AAS (other than AASB 10 and AASB 128). This approach is designed to minimise the burden associated with preparing the disclosures by having entities assess first whether or not their material accounting policies comply with AAS R&M requirements, and then whether the financial statements overall comply with AAS R&M requirements. If all material accounting policies comply with AAS R&M requirements, there is no disclosure to be made under paragraph 9C(e), which is why paragraph 9C(f) is useful as a way to make clear to users the financial statements do in fact comply with all R&M requirements. Although the Board noted AAS usually only require an entity to disclose where they have not complied with AAS requirements, in this case requiring an entity to disclose it has complied is useful for users and is not an onerous requirement. Furthermore, without paragraph 9C(f), if an entity has one or more instances of material non-compliance with R&M requirements, without disclosing overall non-compliance it may not be readily evident to users that this is the case.
- BC45 The Board reaffirmed its decision to not provide entities within the scope of this Standard an option to state they have not assessed compliance with certain AAS requirements. The Board noted the contrary view that allowing a ‘not assessed’ option might be a means of responding to cost/benefit concerns expressed by respondents to ED 302, whilst still providing useful information that would put users on notice that the financial statements might not comply with all the R&M requirements in AAS. However, consistent with the reasons in paragraph BC25 and the fact the Board had not identified any new arguments in the responses to ED 302, the Board did not accept that contrary view. The Board also noted deferral of the effective date as mentioned in paragraph BC51 would provide entities with sufficient time to consider any possible complexities or challenges in making the disclosures, and therefore the ‘not assessed’ option was not warranted.

Disclosures regarding omitted AAS disclosures

- BC46 Some respondents to ED 302 expressed a view the disclosure requirements in this Standard should be expanded to require an entity’s SPFS to identify AAS where it has elected to omit material disclosures that would otherwise be included in GPFS in accordance with those AAS. For example, where the entity elects to not disclose related party transactions, it should be required to disclose its election not to make any disclosures under AASB 124 *Related Party Disclosures*. The Board considered that while disclosures regarding omitted AAS disclosures might be useful for users of SPFS, the scope of this Standard and the related amendments are aimed at increasing the transparency and comparability of SPFS in relation to compliance with the R&M requirements in AAS rather than AAS disclosure requirements. The Board also noted this matter was previously considered as part of the feedback received on ED 293 and the Board decided against requiring additional AAS disclosures as it was beyond the scope of the project that resulted in AASB 2019-4. Consistent with AASB 2019-4, the Board considered matters relating to omitted disclosures are beyond the scope of the project that resulted in this Standard.

Other issues

Consistency with the Standard-Setting Framework

- BC47 Some respondents to ED 302 expressed a view that a Standard based on the proposals would contradict *The AASB’s For-Profit Entity Standard-Setting Framework* (the Framework), and therefore this Standard should

not be issued. This was on the basis that the Framework states “the AASB currently does not set recognition and measurement requirements for SPFS. This is because SPFS should only be prepared where users can tailor the SPFS to their own information needs and therefore do not need a standard-setter or regulator to specify the accounting policies or require disclosure of the information for them.”

- BC48 The Board considered this view in light of its decision relating to disclosures in SPFS of not-for-profit private sector entities as reflected in AASB 2019-4. The Board acknowledged that the appropriateness of the justifications noted in the Basis for Conclusions on AASB 2019-4 (in particular paragraph BC40) for rejecting these respondents’ views are less apparent for entities within the scope of this Standard, but nonetheless concluded this Standard is justifiable under the Framework. The Framework notes the Board does not set R&M requirements for SPFS. In this Standard, the Board is adding limited disclosure requirements for SPFS, in the same way as it did for not-for-profit private sector entities under AASB 2019-4. This Standard does not set R&M requirements for SPFS.

Overall justification for this Standard

- BC49 In deciding to issue this Standard, the Board noted the anecdotal feedback it had received that this Standard is unreasonable because many references to AAS historically were included in the constituting documents of entities without those entities having a full appreciation of the implications of the reference being ambulatory rather than static. However, the Board concluded this Standard is justified for the reasons indicated in paragraphs BC3-BC12 and on the basis the Board’s acknowledgement of the history of AAS references in constituting documents is the main reason the Board decided on only contextual disclosures for SPFS rather than requiring a more onerous transition to GPFS by entities within the scope of the Standard. Furthermore, overall, the Board concluded the requirements in this Standard are commensurate with the evidence from the research outlined in paragraphs BC5-BC8. Additional research would unduly delay the project and would only be justified if the requirements were to be more onerous, such as mandating R&M requirements.
- BC50 Paragraph 18 of the *AASB For-Profit Entity Standard-Setting Framework* (July 2021) states: “Enforcement of the preparation of financial statements and compliance with Accounting Standards is the responsibility of other regulators ... It is not the responsibility of the AASB.” Consistent with that, the Board noted its role and expertise in relation to this Standard is to determine the appropriate accounting framework and accounting standards that should apply where financial statements are required by constituting or other documents to comply with AAS. Requiring additional disclosures in SPFS to provide greater transparency and comparability regarding compliance with the R&M requirements in AAS is consistent with this role.

Effective date

- BC51 The Board initially decided this Standard should be effective for annual reporting periods beginning on or after 1 July 2021, with earlier application permitted. This effectively deferred the proposed operative date by 12 months. In making this decision the Board acknowledged anecdotal feedback that some issues faced by small entities within the scope of this Standard might be more complex than originally thought. After the issuance of ED 302, the Board became aware that in some instances, for example when applying AASB 15 *Revenue from Contracts with Customers* or AASB 119 *Employee Benefits*, it may be difficult for smaller entities to determine whether they are complying with the R&M requirements in AAS, such as an entity calculating employee benefits (eg long service leave) when they have staff with long tenure.
- BC52 Consistent with the Board’s view in paragraph BC34, the Board concluded deferring the proposed operative date by 12 months (with early adoption allowed) would give entities within the scope of this Standard enough time to prepare for the implementation of the disclosures. It would also be a way for the Board to address the fact that the economic impact of COVID-19 has been significant, is ongoing, and could not have been predicted when issuing ED 302 and proposing an operative date.
- BC53 Given subsequent delays in finalising this Standard, the Board revised the operative date to periods ending on or after 30 June 2022, which in substance covers the same periods as periods beginning on or after 1 July 2021. Short periods beginning on or after 1 July 2021 and ending before 30 June 2022 would not be covered, but these would be very unusual and therefore of limited significance in aggregate. Earlier application is permitted.