

Basis for Conclusions on AASB 2021-6

This Basis for Conclusions accompanies, but is not part of, AASB 1060. The Basis for Conclusions was originally published with AASB 2021-6 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards.

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

Reasons for issuing this Standard

BC2 In March 2021, the Board issued AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*. This Standard amended:

- (a) AASB 7 *Financial Instruments: Disclosures*, to clarify that information about measurement bases for financial instruments is expected to be material to an entity’s financial statements;
- (b) AASB 101 *Presentation of Financial Statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates;
- (d) AASB 134 *Interim Financial Reporting*, to identify material accounting policy information as a component of a complete set of financial statements; and
- (e) AASB Practice Statement 2 *Making Materiality Judgements*, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

BC3 The amendments made by AASB 2021-2 principally affect the disclosure requirements and guidance in some Tier 1 Australian Accounting Standards.¹ The Board decided it was appropriate to make similar amendments to domestic Australian Accounting Standards, including the Tier 2 Standard AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, to ensure there is consistency in the terminology used across Australian Accounting Standards.

Issue of Exposure Draft ED 312

BC4 The Board’s proposals with respect to the amendments finalised in this Standard were exposed for public comment in August 2021 through Exposure Draft ED 312 *Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards*.

BC5 The significant issues considered by the Board in developing ED 312 are addressed in the following sections.

Relevance of the amendments to AASB 1060

BC6 The AASB *For-Profit Entity Standard-Setting Framework* and the AASB *Not-for-Profit Entity Standard-Setting Framework* outline the approach adopted by the Board in considering whether to add to or amend disclosure requirements in AASB 1060 when the IASB makes amendments to full IFRS Standards.

BC7 Applying this approach, ED 312 proposed that in relation to the amendments made by AASB 2021-2 to:

- (a) AASB 101 and AASB 7:

¹ AASB 1053 *Application of Tiers of Australian Accounting Standards* outlines that Australian Accounting Standards consist of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Simplified Disclosures (for annual periods beginning on or after 1 July 2021).

- (i) where AASB 1060 contains a corresponding paragraph, AASB 1060 should be updated in a similar manner. If the corresponding paragraph in AASB 1060 is not updated, entities may interpret and apply the requirements of AASB 1060 differently from the corresponding requirements in those Standards; and
 - (ii) where guidance paragraphs were added to AASB 101, these paragraphs should be added to AASB 1060. The intention of these paragraphs is to assist entities in determining whether accounting policy information is material to their financial statements. Therefore, the Board expected this guidance also to be useful for entities preparing Tier 2 financial statements. As AASB 101 does not apply directly to entities applying AASB 1060 (paragraph 2 of AASB 1060 permits entities to refer to other Standards for guidance), the Board considered that a cross-reference to AASB 101 would be unhelpful to users of AASB 1060 and took the view that these paragraphs should be added to AASB 1060;
- (b) AASB 134 and AASB Practice Statement 2 – no changes to AASB 1060 were required:
- (i) AASB 134 applies to the preparation of interim financial reports, whereas AASB 1060 is intended to be used in the preparation of annual general purpose financial statements. Therefore, AASB 1060 does not include any requirements equivalent to those in AASB 134; and
 - (ii) AASB Practice Statement 2 provides non-mandatory guidance to all entities on making materiality judgments when preparing general purpose financial statements in accordance with Australian Accounting Standards. Therefore, AASB 1060 does not include any requirements equivalent to those in AASB Practice Statement 2; and
- (c) AASB 108 – no changes to AASB 1060 were required. The amended paragraphs in AASB 108 already apply to entities complying with AASB 1060.

Relevance of the amendments to other Australian Accounting Standards

- BC8 The Board reviewed the requirements of all domestic Australian Accounting Standards (including Interpretations) and Australian-specific requirements in Standards, as identified with the ‘Aus’ prefix. The Board noted that two domestic Standards in addition to AASB 1060 contain references to ‘significant accounting policies’: AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1054 *Australian Additional Disclosures*. The Board also considered it appropriate to propose amendments to these Standards to reflect the updated terminology (ie to require or refer to the disclosure of material accounting policy information rather than the disclosure of significant accounting policies) for consistency across all Australian Accounting Standards.

Finalisation of ED 312 proposals

- BC9 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 312.

Feedback from respondents on ED 312

- BC10 The Board received formal comment letters on ED 312 from three stakeholders and verbal feedback from another stakeholder. The feedback received indicated that, in general, all respondents were supportive of the proposals. However, some respondents provided additional feedback:
- (a) one stakeholder noted that ED 312 proposed adding guidance paragraphs to AASB 1060 (proposed paragraphs 95A–95E – corresponding with paragraphs 117A–117E of AASB 101). Although the guidance might be helpful to users, the stakeholder was concerned that guidance paragraphs were not included in AASB 1060 originally and was also unsure whether all of the guidance in proposed paragraphs 95A–95E was necessary. They were also concerned that inclusion of proposed paragraphs 95A–95E might create an expectation that guidance paragraphs would be added to AASB 1060 routinely in the future; and
 - (b) one stakeholder suggested the Board consider whether certain paragraphs in AASB 1060 requiring accounting policy information for specific transactions and balances are necessary, as disclosure of

this information is already required by AASB 1060 paragraph 95.² They also suggested that if the disclosure requirements were retained, it might be helpful for users of AASB 1060 if the Board clarified that the specific disclosures are required only where they are material to the financial statements.

- BC11 The Board considered the feedback and decided:
- (a) not to add proposed paragraphs 95A–95E to AASB 1060. When developing AASB 1060, the Board was aware that replacing certain Standards with sections in AASB 1060 also removed some of the guidance included in those Standards, where such guidance was also not included in the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs Standard)*. However, for the sake of maintaining the simplicity of the disclosure requirements in AASB 1060, 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.³ Whilst the Board was unable to follow the IASB approach in this case as the *IFRS for SMEs Standard* was last updated in 2015, on balance the Board considered that including the proposed guidance paragraphs in AASB 1060 was not necessary. The Board noted that AASB 1060 paragraph 2 permits an entity applying AASB 1060 to refer to other Australian Accounting Standards (including AASB 101) for guidance where necessary; and
 - (a) to clarify that the accounting policy disclosure requirements in AASB 1060 for specific transactions or balances apply only where the accounting policy information is material to the financial statements (i.e. the same basis as the general requirement to disclose accounting policy information in AASB 1060 paragraph 95). The Board considered that the clarification would be helpful to users of AASB 1060.

Effective date and early application

- BC12 To ensure consistency between the amendments in this Standard and the amendments made in AASB 2021-2, the Board decided that this Standard would be effective for annual periods beginning on or after 1 January 2023, with earlier application permitted.

² For example, AASB 1060 paragraphs 123, 125, 129, 160, 163 and 221 require disclosure of accounting policy information for specific transactions and balances.

³ AASB 1060 paragraph BC55.