

# **Explanatory Statement**

## **Accounting Standard AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework***

**May 2019**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Standards Amended by AASB 2019-1

This Standard makes amendments to the Australian Accounting Standards, Interpretations and other pronouncements listed in the Appendix to this Explanatory Statement. The amendments arise from the issuance by the International Accounting Standards Board (IASB) of the revised *Conceptual Framework for Financial Reporting* and the International Financial Reporting Standard *Amendments to References to the Conceptual Framework in IFRS Standards* in March 2018.

### Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the Australian Accounting Standards Board (AASB) has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

## Main Features of AASB 2019-1

### Main Requirements

This Standard sets out amendments to Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* by the AASB. The *Conceptual Framework* was issued by the AASB at the same time as this Standard.

The application of the *Conceptual Framework* in Australia is at present limited to:

- (a) for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards; and
- (b) other for-profit entities that voluntarily elect to apply the *Conceptual Framework*, which would permit compliance with Australian Accounting Standards (Tier 1) and International Financial Reporting Standards (IFRS Standards).

This Standard makes amendments to Australian Accounting Standards, Interpretations and other pronouncements to permit other entities to continue using the *Framework for the Preparation and Presentation of Financial Statements* adopted by the AASB in 2004 (the *Framework*) and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* to determine whether they are a reporting entity that needs to prepare general purpose financial statements that comply with Australian Accounting Standards.

Some Australian Accounting Standards, Interpretations and other pronouncements contain references to, or quotations from, the *Framework*. This Standard updates some of those references and quotations so that they refer to the *Conceptual Framework*, and makes other amendments to clarify which version of the conceptual framework is referred to in particular pronouncements.

If an entity is required to apply the *Conceptual Framework*, it cannot identify as a non-reporting entity under SAC 1. The entity will therefore need to prepare general purpose financial statements that comply with Australian Accounting Standards.

### Application Date

AASB 2019-1 applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

## Consultation Prior to Issuing this Standard

The AASB's proposals were released for public comment in May 2018 as part of Invitation to Comment ITC 39 *Consultation Paper – Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*. In developing the proposals in ITC 39, the AASB considered the findings of various research projects it had initiated. This included AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* (June 2014) and AASB Research Report No. 6 *Financial Reporting Requirements Applicable to Public Sector Entities* (May 2018).

The AASB's preference was for a two-phase approach to applying the IASB's revised Conceptual Framework. Phase 1 of the project would implement the IASB's revised Conceptual Framework for publicly accountable for-profit private sector entities that are required by legislation to comply with Australian Accounting Standards and for other for-profit entities (private sector or public sector) that elect to apply the *Conceptual Framework*. Phase 2 of the project was proposed to implement the IASB's revised Conceptual Framework for other for-profit entities, subject to further consultation.

After issuing ITC 39, the AASB held targeted outreach with key stakeholders, including State, Territory and national regulators, audit offices, accounting firms, the Australian Securities Exchange (ASX), the Australian Securities and Investments Commission (ASIC), credit rating agencies and professional accountancy bodies. The ITC 39 proposals were also presented and discussed at various forums, workshops and discussion groups. Submissions in respect of the Phase 1 proposals were requested by 9 August 2018.

The AASB received feedback on its proposals through 24 formal comment letters on ITC 39. The AASB also obtained feedback via means such as e-mails, meetings with stakeholders and feedback from external presentations. The responses to ITC 39 indicated that the majority of the respondents were supportive of the proposals in Phase 1 and the need to issue the *Conceptual Framework* in Australia prior to 1 January 2020. This would ensure that for-profit private sector entities with public accountability could continue to maintain compliance with IFRS Standards.

At its meeting in November 2018, the AASB decided to progress finalising Phase 1 by issuing a limited-scope consultative document that presented the revised proposed consequential amendments to Australian Accounting Standards, Interpretations and other pronouncements that were needed to support the issuance of the *Conceptual Framework*. A fatal-flaw review version of the proposed amending Standard was issued in January 2019, with a two-month comment period.

The AASB received four submissions on the fatal-flaw review version. The responses in general supported the issuance of the amending Standard to finalise the Phase 1 consequential amendments alongside the *Conceptual Framework*, although one respondent preferred that two conceptual frameworks were both on issue for only a limited period of time and one preferred only one conceptual framework to be on issue. Some of the submissions raised matters of detail regarding the consequential amendments, which were addressed in finalising the amending Standard.

The feedback and proposed amendments to the amending Standard were considered by the AASB at its meeting in April 2019. The AASB subsequently decided to approve the issue of the *Conceptual Framework* and make this amending Standard in May 2019.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2019-1, consistent with the Office of Best Practice Regulation requirements. The amendments made do not have a substantial direct or indirect impact on business or competition. For example, virtually all for-profit private sector entities that have public accountability, which will apply the *Conceptual Framework* under Phase 1, are already preparing general purpose financial statements (Tier 1) and do not identify as a non-reporting entity under SAC 1, as the AASB had expected of all such entities. Furthermore, the amendments do not affect the applicability of the Australian reporting entity concept to other entities, which will continue to apply the *Framework* unless they are for-profit entities that elect to apply the *Conceptual Framework* instead.

# Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the  
*Human Rights (Parliamentary Scrutiny) Act 2011*

## **Accounting Standard AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework***

### **Overview of the Accounting Standard**

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If an entity is required to apply the *Conceptual Framework*, it cannot identify as a non-reporting entity under SAC 1. The entity will therefore need to prepare general purpose financial statements that comply with Australian Accounting Standards.

### **Human Rights Implications**

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

### **Conclusion**

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

## Appendix

### **Australian Accounting Standards, Interpretations and Other Pronouncements amended by AASB 2019-1**

- AASB 2 *Share-based Payment* (July 2015);
- AASB 3 *Business Combinations* (August 2015);
- AASB 6 *Exploration for and Evaluation of Mineral Resources* (August 2015);
- AASB 7 *Financial Instruments: Disclosures* (August 2015);
- AASB 8 *Operating Segments* (August 2015);
- AASB 9 *Financial Instruments* (December 2014);
- AASB 10 *Consolidated Financial Statements* (July 2015);
- AASB 12 *Disclosure of Interests in Other Entities* (August 2015);
- AASB 14 *Regulatory Deferral Accounts* (June 2014);
- AASB 17 *Insurance Contracts* (July 2017);
- AASB 101 *Presentation of Financial Statements* (July 2015);
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (August 2015);
- AASB 110 *Events after the Reporting Period* (August 2015);
- AASB 112 *Income Taxes* (August 2015);
- AASB 116 *Property, Plant and Equipment* (August 2015);
- AASB 119 *Employee Benefits* (August 2015);
- AASB 121 *The Effects of Changes in Foreign Exchange Rates* (August 2015);
- AASB 124 *Related Party Disclosures* (July 2015);
- AASB 128 *Investments in Associates and Joint Ventures* (August 2015);
- AASB 132 *Financial Instruments: Presentation* (August 2015);
- AASB 133 *Earnings per Share* (August 2015);
- AASB 134 *Interim Financial Reporting* (August 2015);
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015);
- AASB 138 *Intangible Assets* (August 2015);
- AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015);
- AASB 140 *Investment Property* (August 2015);
- AASB 1023 *General Insurance Contracts* (July 2004);
- AASB 1038 *Life Insurance Contracts* (July 2004);
- AASB 1048 *Interpretation of Standards* (December 2017);
- AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010);
- AASB 1054 *Australian Additional Disclosures* (May 2011);
- AASB 1055 *Budgetary Reporting* (March 2013);
- AASB 1056 *Superannuation Entities* (June 2014);

AASB 1057 *Application of Australian Accounting Standards* (July 2015);  
Interpretation 12 *Service Concession Arrangements* (August 2015);  
Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (August 2015);  
Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* (August 2015);  
Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (August 2015);  
Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (February 2017);  
Interpretation 132 *Intangible Assets—Web Site Costs* (August 2015);  
Interpretation 1003 *Australian Petroleum Resource Rent Tax* (November 2007);  
Interpretation 1019 *The Superannuation Contributions Surcharge* (September 2004);  
Interpretation 1031 *Accounting for the Goods and Services Tax (GST)* (July 2004);  
Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (December 2007);  
Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* (December 2014);  
Interpretation 1052 *Tax Consolidation Accounting* (June 2015);  
*Framework for the Preparation and Presentation of Financial Statements* (July 2004);  
Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (August 1990);  
AASB Practice Statement 2 *Making Materiality Judgements* (December 2017).