

Explanatory Statement

Accounting Standard AASB 2020-2

Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities

March 2020



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2020-2

This Standard makes amendments to the Australian Accounting Standards listed in the Appendix to this Explanatory Statement. These amendments update the set of for-profit entities for which the reporting entity concept in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* is no longer relevant, extend the application of the Standards and the AASB *Conceptual Framework for Financial Reporting (Conceptual Framework)* (May 2019) and build upon the consequential amendments to pronouncements previously made in Accounting Standard AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (May 2019).

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 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 2020-2

Main Requirements

This Standard makes amendments to the Standards (via AASB 1057 *Application of Australian Accounting Standards*) and the *Conceptual Framework* so that they apply explicitly to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards (with the previous limitation to entities with public accountability removed); and
- (b) other for-profit private sector entities that are required only by their constituting document or another document to prepare financial statements that comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2021.

The *Conceptual Framework* is also amended to apply to other for-profit entities (including for-profit public sector entities) that elect to prepare general purpose financial statements and as a result apply the *Conceptual Framework* and the consequential amendments to other pronouncements set out in this Standard, as well as in AASB 2019-1.

The applicability of the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) and SAC 1 is amended so that they continue to apply to for-profit entities that do not need to apply the *Conceptual Framework* (eg for-profit public sector entities and those whose constituting document was created or amended before 1 July 2021), as well as to not-for-profit entities (subject to exceptions stated in the Standards).

Consequential amendments are made to various Standards, including amending the applicability of the ‘reporting entity’ definition in AASB 1057 so that it is not relevant to the entities to which this Standard is applicable (all of which would apply the *Conceptual Framework*). As a consequence, the ability of such an entity to prepare special purpose financial statements is removed and it will need to prepare general purpose financial statements that comply with Australian Accounting Standards (or accounting standards, under legislative requirements).

This Standard also adds an Appendix to AASB 1053 *Application of Tiers of Australian Accounting Standards* to provide relief from restating comparative information for entities that elect to early adopt the requirements in this Standard.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 July 2021, with earlier application 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 initially 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 and previous public consultation documents. This included AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial*

Statements (June 2014), AASB Research Report No. 6 *Financial Reporting Requirements Applicable to Public Sector Entities* (May 2018), AASB Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* (May 2007), AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements* (February 2010) and ED 192 *Revised Differential Reporting Framework* (February 2010).

ITC 39 proposed a two-phase approach to applying the IASB's revised Conceptual Framework and solving the problems associated with special purpose financial statements. Such problems included a lack of consistency, comparability, transparency and enforceability. Phase 1 of the project was proposed to 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, subject to further consultation, to implement the IASB's revised Conceptual Framework for other entities and remove the ability for those entities required by legislation or otherwise to prepare financial statements that comply with accounting standards to prepare special purpose financial statements.

However after considering the initial feedback on ITC 39, the results of discussions with the ACNC and other State and Territory regulators regarding the recommendations in the ACNC's Legislative Review 2018: *Strengthening for Purpose: Australian Charities And Not-for-profits Commission* (ACNC legislative review), research initiated by the AASB and *The AASB's Not-for-Profit Entity Standard-Setting Framework*, the AASB decided that the proposals in ITC 39 should apply only to for-profit private sector entities, and that it would be more appropriate to progress reform of the not-for-profit public and private sector financial reporting framework via separate targeted consultations undertaken as part of the broader financial reporting framework project.

Phase 1 of ITC 39 was completed with the issue of the *Conceptual Framework* and AASB 2019-1 in May 2019.

After issuing ITC 39, the AASB held targeted outreach on Phase 2 with key stakeholders, including State, Territory and Commonwealth regulators, audit offices, accounting firms, the Australian Securities Exchange (ASX), the Australian Securities and Investments Commission (ASIC), credit rating agencies, professional bodies and users of financial statements (including analysts, investors and creditors) to help identify how implementing the *Conceptual Framework* and removing the ability of certain for-profit private sector entities to prepare special purpose financial statements when they are required to prepare financial statements that comply with Australian Accounting Standards would impact Australian entities. The ITC 39 proposals were also presented and discussed at various forums, workshops and discussion groups and feedback was also sought via targeted user and preparer surveys. The AASB received feedback on its proposals through 33 formal comment letters (relevant to this Phase of the project) on ITC 39.

The responses to ITC 39 and feedback from outreach activities indicated general agreement amongst stakeholders that there is a problem with special purpose financial statements that needed to be solved.

The AASB considered this feedback and the findings of AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019), and decided to issue Exposure Draft ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (August 2019). Following the issue of ED 297, further targeted outreach, roundtable events and a webinar were held. Submissions in respect of ED 297 were requested by 30 November 2019. The AASB received feedback on ED 297 through 19 formal comment letters.

The majority of responses to ED 297 and feedback from outreach activities showed support for removing special purpose financial statements for certain for-profit private sector entities. Some stakeholders also provided feedback on other matters related to ED 297. The AASB considered all feedback received, and at its meeting in March 2020, the AASB decided to progress finalising Phase 2 by making this amending Standard.

The AASB has certified its process in developing this Standard as RIS-like, rather than preparing a Regulatory Impact Statement in relation to this Standard. The AASB has covered the seven RIS questions in its Basis for Conclusions attached to AASB 2020-2.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

Overview of the Accounting Standard

This Standard makes amendments to the Standards (via AASB 1057) and the *Conceptual Framework* so that they apply explicitly to:

- (a) for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards (with the previous limitation to entities with public accountability removed); and
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The applicability of the *Framework* and SAC 1 is amended so that they continue to apply to for-profit entities that do not need to apply the *Conceptual Framework* (eg for-profit public sector entities and those whose constituting document was created or amended before 1 July 2021), as well as to not-for-profit entities (subject to exceptions stated in the Standards).

Consequential amendments are made to various Standards, including amending the applicability of the ‘reporting entity’ definition in AASB 1057 so that it is not relevant to the entities to which this standard is applicable (all of which would apply the *Conceptual Framework*). As a consequence, the ability of such an entity to prepare special purpose financial statements is removed and it will need to prepare general purpose financial statements that comply with Australian Accounting Standards (or accounting standards, under legislative requirements).

This Standard also adds an Appendix to AASB 1053 to provide relief from restating comparative information for entities that elect to early adopt the requirements in this Standard.

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 and Other Pronouncements amended by AASB 2020-2

Conceptual Framework for Financial Reporting (May 2019);

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 1 *First-time Adoption of Australian Accounting Standards* (July 2015);

AASB 10 *Consolidated Financial Statements* (July 2015);

AASB 1048 *Interpretation of Standards* (December 2017);

AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010); and

AASB 1057 *Application of Australian Accounting Standards* (July 2015).