

Explanatory Statement

Accounting Standard AASB 1060

General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

March 2020



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of AASB 1060

Main Requirements

This Standard sets out a new, separate disclosure Standard to be applied by all entities that are reporting under Tier 2 of the Differential Reporting Framework in AASB 1053 Application of Tiers of Australian Accounting Standards. This Standard has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting user needs, to replace the current Reduced Disclosure Requirements (RDR) framework. The methodology and principles applied are outlined in the Basis for Conclusions to this Standard.

This Standard does not change:

- which entities are permitted to apply Tier 2 reporting requirements; and
- the recognition and measurement requirements of Tier 2, which are the same as for Tier 1.

The disclosures that are relevant to Tier 2 entities are set out in this separate Standard and are less than what is required for Tier 1 entities. While AASB 1060 also includes certain presentation requirements, these do not result in presentations or classifications that are different to those required for Tier 1 entities. The only exception is the option not to include a separate statement of changes in equity in certain circumstances, as set out in paragraph 26 of the Standard.

Entities that comply with this Standard need to apply the recognition and measurement requirements in other Australian Accounting Standards, however, they are exempt from the disclosure requirements in specified paragraphs in other Standards. Tier 2 entities are also not required to comply with other Australian Accounting Standards that deal only with presentation and disclosure. Consequential amendments to the relevant Standards are set out in Appendix C.

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of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Standards Amended by AASB 1060

This Standard makes amendments to 44 Australian Accounting Standards and six interpretations, as set out in Appendix C to the Standard.

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*.

Consultation Prior to Issuing this Standard

The Board first consulted on the replacement of the Tier 2 Reduced Disclosure Requirements (RDR) framework after a post implementation review identified that the RDR framework had not delivered the expected outcome and that take up of the RDR framework by entities was consequently low. In response to these findings the Board issued ED 277 *Reduced Disclosures Requirements for Tier 2 Entities* in January 2017 as a joint project with the New Zealand Accounting Standards Board (NZASB).

ED 277 proposed adopting an RDR decision-making framework, together with accompanying operational guidance. However, Australian stakeholders did not support the proposals in ED 277 and while the Board had intended to conduct further outreach, this was put on hold following the decision by the Board to reform the Australian Financial Reporting Framework and propose removing the ability for entities to prepare special purpose financial statements when required to comply with Australian Accounting Standards by legislation or otherwise.

In May 2018, the Board issued Invitation to Comment ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* which proposed replacing the current RDR framework with the Specified Disclosure Requirement (SDR) framework. This would have required compliance with the full recognition and measurement requirements of Australian Accounting Standards (as amended for not-for-profit specific issues) and included the disclosure of those Australian Accounting Standards that are currently

mandatory for entities required to prepare financial statements in accordance with Chapter 2M of the Corporations Act 2001 (Cwth), being 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 *Australian Additional Disclosures*, and disclosures required by AASB 15 *Revenue from Contracts with Customers*, AASB 112 *Income Taxes*, AASB 124 *Related Party Disclosures* and AASB 136 *Impairment of Assets*.

The feedback received on the proposals in ITC 39 was that the proposed SDR framework had too many disclosures in some ways but fell short in many other ways, but the RDR framework was also not supported as it has too many disclosure requirements.

In weighing up the shortfalls of the RDR, the other previously proposed Tier 2 options and the disclosure principles applied by the IASB while developing the *IFRS for SMEs* Standard, the Board decided in February 2019 to develop a new Tier 2 Standard based on the disclosures in the *IFRS for SMEs* Standard which would be available for general purpose financial statements that are publicly lodged or are required to comply with Australian Accounting Standards, but do not relate to entities that are publicly accountable.

The disclosures that are relevant to Tier 2 entities are set out in a separate Standard, being AASB 1060. The Board concluded that the simplified disclosures strike the right balance between user needs and cost to preparers and appropriately address the concerns raised by respondents to ITC 39. In particular, the Board noted the strong support for a consistent reporting framework which requires compliance with full recognition and measurement requirements in Australian Accounting Standards. The disclosures in AASB 1060 will not only be beneficial for entities that are already reporting under Tier 2 but also for those entities that will have to step up from special purpose financial statements to Tier 2 general purpose financial statements when the removal of special purpose financial statements for certain for-profit private sector entities that are required to prepare financial statements that comply with Australian Accounting Standards or accounting standards through AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* becomes applicable.

AASB 1060 was exposed for public comment in August 2019 as ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Exposed together with ED 295 was ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Comment period for both EDs ended on 30 November 2019.

Extensive outreach was conducted on the proposals, including roundtables in Melbourne, Sydney, Brisbane, Perth and Adelaide, attended by 127 stakeholders, a webinar with 162 participants, as well as separate consultations with the AASB's User Advisory Committee, credit analysts and private equity investors.

The Board received 25 formal submissions on ED 295 from stakeholders representing professional services firms, regulators, professional bodies, academics, preparers, public sector audit office, software providers and others.

The majority of responses to ED 295 and feedback from outreach activities showed support for the AASB to proceed with the Simplified Disclosure Standard. Some stakeholders also provided feedback on other matters related to ED 295. The AASB considered all feedback received, and at its meeting in March 2020, the AASB decided to progress finalising this 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 1060.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 1060

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Overview of the Accounting Standard

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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*.