

Explanatory Statement

Accounting Standard AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1*

May 2022



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2022-2

This Standard makes amendments to the following Australian Accounting Standards:

- (a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015); and
- (b) AASB 1053 *Application of Tiers of Australian Accounting Standards* (June 2010).

For periods beginning on or after 1 July 2021, certain for-profit-private sector entities can no longer apply the reporting entity concept or prepare special purpose financial statements (SPFS) when the financial statements are required (by legislation or an entity's constituting or other document) to comply with Australian Accounting Standards or when legislation requires the financial statements to comply with accounting standards. This follows the issue of *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

Instead, entities within the scope of AASB 2020-2 will be required to prepare general purpose financial statements (GPFS). In addition, some of these entities may also be required to prepare consolidated financial statements for the first time if they historically applied the exemption in AASB 10 *Consolidated Financial Statements* that did not require the presentation of consolidated financial statements when neither the parent entity nor the group was a reporting entity.

Marked-up Text

This Standard incorporates marked-up text to clearly identify some or all of the amendments to the Standards. All amendments are incorporated using clean text into the compilations of those Standards when they are prepared, based on the legal commencement date of the amendments.

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 2022-2

Main Requirements

This Standard amends:

- (a) AASB 1 – to allow:
 - (i) a subsidiary preparing GPFS for the first time to apply the optional exemption in paragraph D16(a) and measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements where the parent has already adopted either Australian Accounting Standards or International Financial Reporting Standards (IFRS Standards or IFRSs); and
 - (ii) an entity that becomes a first-time adopter of Australian Accounting Standards in its consolidated financial statements later than its subsidiary (or associate or joint venture) to use the amounts included in the subsidiary's (or associate's or joint venture's) separate financial statements where the subsidiary (or associate or joint venture) has already adopted either Australian Accounting Standards or IFRSs; and
- (b) AASB 1053 – to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.

Application Date

This Standard applies to annual periods ending on or after 30 June 2022, 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 issued Exposure Draft ED 315 *Extending Transition Relief under AASB 1* in November 2021 for comment by 27 January 2022. The AASB received seven formal comment letters on ED 315. The feedback received indicated that, in general, all respondents were supportive of the proposals. However, some respondents also provided additional feedback.

Amendments to AASB 1

As the optional exemption in AASB 1 paragraph D16(a) can be applied by both for-profit and not-for-profit (NFP) entities, in the absence of a specific limitation to for-profit entities, one stakeholder questioned how a NFP entity might apply the optional exemption (including the proposed amendment) given the recognition and measurement differences between IFRSs and Australian Accounting Standards as they apply to NFP entities. The AASB considered this feedback but decided that no changes to the proposed amendment were necessary, as NFP entities can apply the exemption as far as appropriate.

One stakeholder provided feedback that, in their view, the proposed amendment to AASB 1 paragraph D16(a) was too narrow because the optional exemption could only be applied where a parent entity prepares financial statements that comply with IFRSs, and not where a parent entity prepares financial statements that comply with IFRS-equivalent Standards but do not include a statement of compliance with IFRSs. Although the AASB considered there could be some merit in permitting the proposed amendment to be applied in circumstances where a parent's financial statements comply with IFRS-equivalent Standards rather than IFRSs, the AASB decided not to make such a change.

Amendments to AASB 1053

Two respondents suggested that the proposed amendment to AASB 1053 was unnecessary. In summary, these respondents suggested that an entity can be a first-time adopter in relation to a set of financial statements – for example, its separate financial statements or consolidated financial statements – rather than in relation to the entity as such. The AASB considered this feedback and decided to proceed with the proposed amendment to AASB 1053. Although the AASB acknowledged that the proposed amendment might not be strictly necessary, the AASB considered that the amendment:

- (a) is helpful to stakeholders because it clarifies that an entity can apply AASB 1 on transition from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS;
- (b) is consistent with the approach adopted by the AASB in AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* for entities transitioning from SPFS to Tier 2 GPFS; and
- (c) provides entities with an accounting policy choice that would otherwise be unavailable; that is, they can choose whether to apply AASB 1 or AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to their transition.

Two stakeholders also provided feedback suggesting that the proposed paragraph 20A of AASB 1053 should also be available to NFP entities. The stakeholders suggested that broadening the scope of the amendment would avoid any unforeseen effects on NFP entities that are currently preparing unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS and that might decide to transition to consolidated Tier 2 – Simplified Disclosures GPFS. The AASB acknowledged this feedback but reconfirmed its view that as NFP entities are not affected by the removal of SPFS and the 'reporting entity' definition in Australian Accounting Standards at this stage no changes to the proposed AASB 1053 amendment were necessary.

The AASB set an effective date for the amendments of annual periods ending on or after 30 June 2022, with earlier application permitted.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2022-2 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 2022-2 Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1

Overview of the Accounting Standard

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This Standard amends:

- (a) AASB 1 – to allow:
 - (i) a subsidiary preparing GPFS for the first time to apply the optional exemption in paragraph D16(a) and measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements where the parent has already adopted either Australian Accounting Standards or International Financial Reporting Standards (IFRS Standards or IFRSs); and
 - (ii) an entity that becomes a first-time adopter of Australian Accounting Standards in its consolidated financial statements later than its subsidiary (or associate or joint venture) to use the amounts included in the subsidiary's (or associate's or joint venture's) separate financial statements where the subsidiary (or associate or joint venture) has already adopted either Australian Accounting Standards or IFRSs; and
- (b) AASB 1053 – to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.

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*.