

AGENDA PAPER

Item Number: 11
Date of Meeting: 23 September 2022
Subject: Proposed revisions to APES 205 to address AASB projects

Action required **For discussion** **For noting** **For information**

Purpose

To:

- provide the Board with Technical Staff's assessment of submissions received on ED 03/22 *Proposed Standard: APES 205 Conformity with Accounting Standards* (ED 03/22); and
- obtain the Board's approval, subject to review comments and editorials, to issue a revised APES 205 *Conformity with Accounting Standards* (APES 205).

Background

Technical Staff provided updates to the Board at the August 2019 ([Agenda Item 7](#)), August 2020 ([Agenda Item 8](#)) and June 2022 ([Agenda Item 10](#)) meetings on recent changes made by the Australian Accounting Standards Board (AASB) requiring certain entities to prepare general purpose financial statements (GPFS) and increasing disclosures required in certain special purpose financial statements (SPFS).

[AASB 2019-4](#) Amendments to Australian Accounting Standards – *Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* increased disclosures for not-for-profit (NFP) private sector entities lodging SPFS with the Australian Securities and Investments Commission (ASIC) and the Australian Charities and Not-for-profits Commission (ACNC) effective for periods ending on or after 30 June 2020.

[AASB 2020-2](#) Amendments to Australian Accounting Standards – *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* prevents SPFS from 2022 onwards for for-profit private sector entities required by:

- legislation to comply with Australian Accounting Standards (AAS) or accounting standards¹; or
- their constituting document (or another document) to comply with AAS where the relevant document was created or amended on or after 1 July 2021.²

In 2021, the AASB issued [AASB 2021-2](#) Amendments to Australian Accounting Standards – *Disclosure of Accounting Policies and Definition of Accounting Estimates* and [AASB 2021-6](#) Amendments to Australian Accounting Standards – *Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*. These amended several AAS to require disclosure of 'material accounting policy information' instead of 'significant accounting policies' (effective for annual periods beginning on or after 1 January 2023).

The Board approved ED 03/22 at the June 2022 meeting subject to the AASB's final standard on SPFS disclosures requirements for for-profit private sector entities required only by their constituting document (or another document) to comply with AAS, which was created or last amended before 1 July 2021.

The AASB issued [AASB 2022-4](#) Amendments to Australian Accounting Standards – *Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* on 23 June 2022.

APESB issued [ED 03/22](#) on 28 June 2022 and was open for public comment until 15 August 2022. ED 03/22 included three requests for specific comments and the following proposed amendments:

- a footnote to the Statement of Accounting Concepts 1 (SAC 1) definition that the Reporting Entity concept does not apply to the entities in paragraph 2A of SAC 1;
- to paragraph 4.1 on responsibilities in respect of the Reporting Entity concept to remove the reference to the AASB's *Framework for the Preparation and Presentation of Financial Statements* and to include the same footnote as per (a); and
- the addition of paragraph 6.2 to scope-out entities required to comply with AASB SPFS requirements from the disclosure requirements in paragraph 6.1 of APES 205.

Matters for Consideration

APESB received 7 submissions on ED 03/22 from:

- ACNC;
- Chartered Accountants Australia and New Zealand and CPA Australia (joint submission);
- David Hardidge;
- Deloitte;
- Institute of Public Accountants;
- KPMG; and
- PwC

¹ Such as under the *Corporations Act 2001* being large proprietary companies, unlisted public companies, small foreign-controlled companies, financial services licensees and small proprietary companies with crowd-sourced funding.

² Such as private sector trusts, partnerships, self-managed superannuation funds and joint arrangements.

Stakeholders' comments are tabulated in General and Specific Comments Tables at Agenda Items 11(a) and 11(b). Stakeholders generally supported revising APES 205 to address AASB changes affecting GPFS and SPFS and raised the following substantive matters.

1. Request for Specific Comment 1

Do you agree with the APESB's approach to not amend subparagraphs 6.1(b) and (c) of APES 205 to align to the terminology in the AASB's SPFS disclosure requirements? Please provide reasons and justification for your response.

Recent AASB changes have resulted in additional SPFS disclosure requirements for the private sector:

- NFPs lodging SPFS with ASIC and the ACNC; and
- for-profit entities required only by their constituting document (or another document) to comply with AAS, which was created or last amended before 1 July 2021.

In developing ED 03/22, APESB considered whether subparagraphs 6.1(b) and (c) of APES 205 should align with the AASB SPFS disclosure terminology and requirements. APESB acknowledged that alignment would create consistency between the respective standards and might benefit Members that deal with entities subject only to APES 205 and other entities subject to the AASB SPFS disclosures. However, APESB determined that this would impact entities that are only required to comply with APES 205, potentially resulting in additional compliance costs without empirical evidence to suggest APES 205's existing requirements are deficient.

Two respondents supported APESB's approach to not align subparagraphs 6.1(b) and (c) to the new AASB SPFS disclosure requirements (SC1 and SC2), including that the AASB SPFS disclosures were developed to address user needs where entities claim compliance with AAS and that these additional requirements are not appropriate on a cost-benefit basis to apply to all other SPFS (SC1 and GC8).

However, both respondents believe proposed paragraph 6.2 of APES 205 should exempt entities from the requirements in paragraph 6.1 of APES 205 by referring to compliance with the requirements in AAS rather than listing specific entity types as was proposed in ED 03/22.

One of the respondents believes this could be achieved by referring to AASB 1054 *Additional Australian Disclosures* (SC1). Whereas the other respondent (SC2) believes this should include reference to AASB 101 *Presentation of Financial Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Technical Staff acknowledge the advantages of referring to AAS in proposed paragraph 6.2 of APES 205 rather than listing specific entities, which would enable scope changes within AAS without the need to revise APES 205 (SC1) and capture other entities not listed in ED 03/22 that may be preparing similar disclosures (SC2). However, not all of these entities would be preparing exactly the same disclosures as APES 205 and may not be preparing all of those disclosures.

Further, APESB is not able to state that compliance with AASB 101, 108, 1054 or 1060 satisfies the requirements of APES 205. Clause 7.2 of APESB's [*Due process and working procedures for the development and review of APESB pronouncements*](#) states that "APESB does not provide advice on how its pronouncements should be interpreted in practice by members of the Professional Bodies".

Accordingly, Technical Staff recommend amending the proposed paragraph 6.2 of APES 205 to be a requirement paragraph that notes that where SPFS are required to include additional disclosures under AAS to those in paragraph 6.1 of APES 205, Members take reasonable steps to ensure the entity complies with the applicable AAS. Technical Staff also recommend including a footnote highlighting relevant AAS, such as AASB 101, 108, 1054 and 1060.

One respondent believes subparagraphs 6.1(b) and (c) of APES 205 should be amended to be consistent with AASB 1054, where there are commonalities between required disclosures and expanded to require disclosure of changes in accounting policies and information about consolidation and equity accounting (SC3).

Technical Staff believe the terminology “*the purpose for which the SPFS have been prepared*” in subparagraph 6.1(b) of APES 205 is sufficiently consistent with AASB terminology, the ‘*basis on which the decision was made*’ and changing this may unnecessarily impact existing practices for entities that only need to comply with APES 205. Further, the additional requirements suggested have not been included in APES 205, or its predecessor standards for several decades, and to date, no other stakeholders have requested their inclusion.

Another respondent believes paragraph 6.1 of APES 205 should align with the terminology, and include the additional AASB SPFS disclosures requirements, in [AASB 2022-4](#) and [AASB 2019-4](#), but with some simplifications (SC5). Technical Staff disagree with this suggestion as it would make APES 205 unnecessarily onerous for entities that prepare SPFS and only need to comply with APES 205. This is particularly the case where there are no external users or external users who can demand specific information (such as banks).

Two respondents supported APESB’s approach to not align the terminology in subparagraphs 6.1(b) and (c) to AAS (SC4, SC20 and SC21). One of those respondents recommended that a footnote be included in APES 205 noting the differences in terminology between APES 205 and the AASB SPFS disclosure requirements (SC4). Technical Staff believe the proposed changes to paragraph 6.2 detailed above negate the need for such a footnote. The remaining submission did not make a comment on this issue.

2. Request for Specific Comment 2

Do you agree with the APESB's approach to not amend subparagraphs 6.1(c) of APES 205 to align to the terminology in AASB 2021-2 and AASB 2021-6? Please provide reasons and justification for your response.

In developing ED 03/22, APESB determined not to amend ‘*significant accounting policies*’ in subparagraph 6.1(c) to ‘*material accounting policies*’ or ‘*material accounting policy information*’ to align with the AASB’s amending standards [AASB 2021-2](#) and [AASB 2021-6](#). APESB believed the benefit of creating consistency between the standards did not outweigh the potential additional compliance costs for entities that are only required to comply with APES 205 in changing existing practices, without empirical evidence of deficiencies in the existing requirement.

Four submissions disagreed with APESB’s position in ED 03/22, believing subparagraph 6.1(c) of APES 205 should be amended to ‘*material accounting policies*’ (SC3, SC6, SC10 and SC21) or ‘*material accounting policy information*’ (SC8) for the following reasons:

- there is an international shift away from ‘significant’, that ‘material’ is more readily understood and provides more meaningful information (SC6);

- retaining 'significant' could create diversity in interpretation, require preparers to apply knowledge to two separate concepts and potentially result in non-specific accounting policy disclosures (SC8);
- that 'material' is widely used, includes quantitative and qualitative factors and using 'material' will promote consistency, whereas 'significant' may have different interpretations and is more focused on quantitative factors (SC10); and
- to improve consistency and remove any ambiguity associated with the undefined term 'significant' and to enable preparers to utilise AASB information and frameworks on materiality concepts (SC21).

Two submissions supported APESB retaining '*significant accounting policies*' in subparagraph 6.1(c) of APES 205 (SC7 and SC9) as a shift to '*material accounting policies*' would require changes to existing practices, contrary to APESB's intention in ED 03/22 to avoid such changes for entities not subject to AAS (SC7). The remaining submission did not comment on this issue.

On balance, Technical Staff agree with the respondents' comments and recommend that '*significant accounting policies*' is amended to '*material accounting policies*' in subparagraph 6.1(c) of APES 205. Technical Staff believe the professional bodies would be well placed to guide Members on any substantive change in disclosing material rather than significant accounting policies.

Technical Staff do not recommend including an additional requirement to disclose changes in those accounting policies (refer SC3 and SC5) which would create an additional requirement for entities only required to comply with APES 205 and has not been included in APES 205, or its predecessor standards for decades.

Technical Staff have also identified that the definitions of Financial Statements and Special Purpose Financial Statements in APES 205 include 'significant accounting policies'. Technical Staff recommend that these references are also amended to '*material accounting policies*' in line with the above recommendation.

3. Request for Specific Comment 3

Do you believe there are other entity types than those listed in proposed paragraph 6.2 of APES 205 that should be scoped-out of the SPFS disclosure requirements in APES 205? Please provide reasons and justification for your response.

The historical purpose of paragraph 6.1 of APES 205 is to ensure that in the absence of other requirements (such as AAS or regulatory requirements) that SPFS have baseline disclosures. However, the recent changes by the AASB require additional SPFS disclosures, some of which are similar to those in APES 205.

To address this issue and to avoid unnecessary duplication, APESB proposed exempting entities required to comply with AASB SPFS requirements from paragraph 6.1 of APES 205 with proposed paragraph 6.2 stating that paragraph 6.1 does not apply to SPFS that include disclosures required by AAS for:

- for-profit private sector entities required by their constituting document (or another document) to comply with AAS where the document was created or amended before 1 July 2021; or
- NFPs lodging SPFS with ASIC or the ACNC.

Four respondents expressed mixed views on this issue as follows:

- All entities preparing SPFS should disclose information in the nature of paragraph 6.1 of APES 205, the AASB SPFS disclosure requirements should not be extended beyond those entities scoped in by the AAS requirements and do not support any further alteration to APES 205 (SC11);
- Proposed paragraph 6.2 of APES 205 fails to incorporate other entities that prepare similar disclosures to paragraph 6.1 of APES 205 under AAS and the exemption should be based on compliance with the relevant accounting standards and not by entity type (SC2 and SC12);
- SPFS should not be exempted from the requirements in APES 205 and the proposed paragraph 6.2 should not be extended, which will ensure that the objective of APES 205 for consistency in critical disclosures is maintained (SC13); and
- Proposed paragraph 6.2 of APES 205 should not be included as requirements in paragraph 6.1 of APES 205 should apply to all entities preparing SPFS and be consistent with the AASB SPSF disclosures (SC15).

The remaining submissions supported the proposed paragraph 6.2 of APES 205 exempting the entities listed from the disclosure requirements in paragraph 6.1 and did not identify any additional entities that should be exempted (SC14, SC19 and SC22).

The ACNC supported the exemption of ACNC registered charities in line with its third statutory object to “*promote the reduction of unnecessary regulatory obligations on the Australian not-for profit sector*” (SC19 and GC1). APESB’s intention in ED 03/22 was to avoid unnecessary duplication consistent with the ACNC’s comments. However, due to the various issues raised by stakeholders, on balance Technical Staff believe that proposed paragraph 6.2 of APES 205 should not exempt specific entities. Although the AASB SPFS disclosures are similar to APES 205, the disclosures are not all the same, all effected entities may not apply all the disclosures and APESB does provide advice on how its pronouncements should be interpreted.

Refer to section 2 above for Technical Staff proposed amendments to paragraph 6.2 to address stakeholders’ concerns.

4. Other Matters Raised by Stakeholders

One respondent (SC17) suggested that:

- the same footnote added to the definition of SAC 1 Definition of Reporting Entity could also be included in the definition of Reporting Entity. Technical Staff agree this is relevant to this definition with this suggestion and recommend this footnote is included; and
- The definitions of Reporting Entity and General Purpose Financial Statements could be changed to include references to SAC 1 and the two current Conceptual Frameworks. However, technical Staff do not recommend such amendments as these definitions are consistent with the AASB and/or AUASB Glossaries and the recommendation in the above dot point would link Reporting Entity to SAC 1.

Two respondents believe the AASB’s current NFP framework reform may necessitate a reconsideration of paragraphs 6.1 and 6.2 of APES 205 when the project is concluded (SC4 and 11). One of these respondents also noted the AASB’s completion of a post-implementation-review (PIR) of its for-profit reforms may also require consideration (SC11).

Technical Staff agree and recommend paragraphs 6.1 and 6.2 of APES 205 are reviewed when the AASB finalises its NFP and for-profit reforms.

One respondent believes APES 205 should require Members to ensure that GPFS are prepared when required by legislation, ministerial directive or other government authority, or a non-legislative requirement to comply with AAS (unless otherwise exempted) (GC13).

Paragraph 4.3 of APES 205 requires Members who are involved in preparing financial statements of a Reporting Entity (a subjective assessment) to take reasonable steps to ensure GPFS are prepared. However, the AASB's recent changes mean certain for-profit private sector entities can no longer use the Reporting Entity concept and must prepare GPFS, creating a positive obligation without a subjective assessment.

Technical Staff believe extant paragraph 5.1 of APES 205 adequately addresses the Respondent's concerns as it requires Members to take reasonable steps to apply AAS when they prepare and/or present GPFS that purport to comply with the Australian Financial Reporting Framework. Certain for-profit private sector entities required by legislation or a constituting document to comply with AAS, must now prepare GPFS, and in such circumstances, the Member must take reasonable steps to apply AAS.

5. Liaison with the AASB

APESB and AASB Technical Staff liaised during the development of ED 03/22. Accordingly, the AASB determined at its August 2022 meeting not to make a public submission on ED 03/22. APESB Technical Staff updated AASB Technical Staff on 31 August 2022 in relation to the proposed amendments to APES 205. AASB Technical Staff support the change from "significant accounting policies" to "material accounting policies" (refer to Request for Specific Comment 2)

6. Proposed APES 205

A proposed revised APES 205 is attached as Agenda Item 11(c) with mark-ups of proposed changes from the proposals in ED 03/22. Technical Staff seek the Board's approval to issue the revised standard, subject to the Board's review comments and editorials.

Small and Medium Practices (SMPs)

Technical Staff believe that the proposed amendments to APES 205 are not substantive and that there should be limited impact on SMPs. Although the proposed change of significant to material accounting policies may have some effect on SMPs' existing reporting practices, this will mean SMPs will only need to establish and maintain knowledge of one and not two separate concepts.

Recommendations

The Board approve, subject to the Board's review comments and editorials, the issue of revised APES 205 *Conformity with Accounting Standards*.

Materials presented

Agenda Item 11(a) General Comments Table ED 03/22
Agenda Item 11(b) Specific Comments Table ED 03/22
Agenda Item 11(c) Proposed Revised APES 205 Conformity with Accounting Standards
(Marked-up)

Author Jon Reid

Date 6 September 2022