

AGENDA PAPER

Item Number: 10
Date of Meeting: 3 June 2022
Subject: Proposed revisions to APES 205 to address AASB projects

Action required For discussion For noting For information

Purpose

To:

- update the Board on the Australian Accounting Standard Board's (AASB) additional disclosure requirements in Special Purpose Financial Statements (SPFS), the removal of the reporting entity concept for certain for-profit entities and other related developments; and
- seek the Board's approval, subject to review comments and editorials, to issue an Exposure Draft on proposed revisions to APES 205 *Conformity with Accounting Standards* (APES 205).

Background

Technical Staff [updated](#) the Board in August 2019 on the AASB's [ED 293](#) *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* which proposed increased disclosures for entities lodging SPFS with the Australian Securities and Investments Commission (ASIC) and the Australian Charities and Not-for-profits Commission (ACNC).

ED 293 proposals were approved for ACNC entities and not-for-profit entities (NFPs) lodging with ASIC in [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* effective for periods ending on or after 30 June 2020.

The AASB did not proceed for for-profit ASIC entities as the costs outweighed the benefits for just one year before these entities transitioned to General Purpose Financial Statements (GPFS) as proposed in [ED 297](#) *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

ED 297 proposals were finalised in March 2020 in [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities](#)¹, which prevents SPFS from 2022 onwards for for-profit private sector entities required by:

- legislation to comply with Australian Accounting Standards (AAS) or accounting standards²; or
- their constituting document (or another document) to comply with AAS where the relevant document was created or amended on or after 1 July 2021.³

AASB issued [ED 302 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities](#) in June 2020, proposing increased SPFS disclosures predominantly on compliance with recognition and measurement (R&M) requirements of AAS of for-profit private sector entities required:

- by legislation to comply with either AAS or accounting standards for one period (2021) before these entities transitioned to GPFS under AASB 2020-2; or
- only by their constituting document (or another document) to comply with AAS, which was created or last amended before 1 July 2021.

Technical Staff's August 2020 [update](#) to the Board included a draft submission on ED 302, which the Board approved. APESB's September 2020 [submission on ED 302](#) recommended that the AASB reconsider the impact on affected entities, undertake research on whether existing requirements are deficient (i.e., APES 205), and exclude entities captured for one year whilst transitioning to GPFS.

The AASB decided in November 2020 to proceed with ED 302's proposals but to delay the effective date to align with AASB 2020-2 for annual periods beginning on or after 1 July 2021 and to exclude entities transitioning to GPFS under AASB 2020-2 ([Action Alert](#)). An amending standard was expected in December 2020, which did not occur at that time.

Matters for Consideration

Agenda Item 10(a) sets out a flowchart/decision tree on the impact of the AASB changes and the SPFS Disclosure Requirements.

1. The Reporting Entity Concept - Entities that can no longer prepare SPFS

1.1 For-Profit Entities

The amendments made by AASB 2020-2 prevents for-profit private sector entities required by legislation to comply with AAS or accounting standards, or entities with constituting or other documents that require compliance with AAS created or amended after 1 July 2021 from preparing SPFS for periods beginning on or after 1 July 2021 onwards.

¹ [AASB2020-2 KeyFacts_03-20](#)

² 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.

³ Such as private sector trusts, partnerships, self-managed superannuation funds and joint arrangements.

Statement of Accounting Concepts 1 and the Framework

Statement of Accounting Concepts 1 *Definition of the Reporting Entity* (SAC 1) defines and explains the concept of the 'reporting entity' and establishes the minimum quality of financial reporting for such entities. The *Framework for the Preparation and Presentation of Financial Statements* (the Framework) sets out the concepts that underlie the preparation and presentation of financial statements for external users.

AASB 2020-2 amended SAC 1 and the Framework, so they cannot be applied by the above mentioned for-profit private sector entities, or for-profit (private or public sector) entities that elect to prepare GPFS and makes the *Conceptual Framework for Financial Reporting* applicable instead.

1.2 NFPs

The removal of the reporting entity concept and SPFS does not affect NFPs at this stage. However, the AASB's NFP Private Sector Financial Reporting Framework project may prevent certain NFPs from preparing SPFS in the future. Jon Reid, Senior Technical Manager, is a member of the AASB's NFP Project Advisory Panel and will monitor the project's progress.

Irrespective, Technical Staff believe the proposed changes to APES 205 detailed below will remain effective should certain NFPs be prevented from preparing SPFS in the future.

1.3 Proposed Changes to APES 205

To address the issue of the removal of the reporting entity concept for certain for-profit private sector entities, Technical Staff propose to amend APES 205 to include a footnote to the definition of Statement of Accounting Concepts 1 as follows:

Statement of Accounting Concepts 1 and the assessment of whether an entity is a [Reporting Entity](#) does not apply to the types of entities set out in paragraph 2A of the Statement of Accounting Concepts 1.

Technical Staff also propose to amend paragraph 4.1 of APES 205 to:

- delete, "and the *Framework for the Preparation and Presentation of Financial Statements*" as this does not aid the assessment of whether an entity is a Reporting Entity, but sets out the concepts that underlie the preparation and presentation of financial statements, and is now replaced by the *Conceptual Framework for Financial Reporting* where a for-profit (private or public sector) entity elects to prepare GPFS; and
- add the same footnote as proposed for the definition of Statement of Accounting Concepts 1.

2. Mandatory AASB SPFS Disclosures

For-Profit Entities

The AASB confirmed at its February 2022 meeting to proceed with ED 302's proposals ([Action Alert](#)). However, an [AASB Staff Paper](#) notes the amending standard had not been finalised for a range of reasons, and with five new Board members, it would not be reasonable for them to

vote on a final standard before providing background on the Board's previous November 2020 decision.

The Staff Paper notes some submissions on ED 302 were critical of the proposals' potential compliance costs and that the Board should consider the costs and benefits in accordance with the Office of Best Practice Regulation (OBPR) requirements. A separate [Agenda Paper](#) provided a Preliminary Assessment for Regulatory Impact Statement Purposes.

A Pre-Ballot Draft was also presented, [AASB 2022-X](#) Amendments to Australian Accounting Standards – *Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*. The amending standard is expected to be issued in June 2022, effective for annual periods ending on or after 30 June 2022.

AASB 2022-X impacts 2022 SPFS for-profit private sector entities required only by their constituting (or another) document to comply with AAS, which was created or last amended before 1 July 2021, providing minimal preparation time. The proposed SPFS disclosures are:

- the basis on which the decision to prepare SPFS was made;
- the material accounting policies applied, including changes in those policies;
- where the entity has interests in other entities – disclose whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted consistent with AAS, and if not, disclose that fact and the reasons why;
- for each material accounting policy applied and disclosed that does not comply with all the R&M requirements in AAS (except for consolidation and equity accounting), disclose an indication of how it does not comply;
- whether or not the financial statements overall comply with all the R&M requirements in AAS (except for consolidation and equity accounting); and
- the statutory basis or other reporting framework, if any, under which the financial statements are prepared, that the entity is for-profit, and the financial statements are SPFS.

NFPs

AASB 2019-4 amendments resulted in SPFS disclosures requirements⁴ for the following NFPs for annual periods ending on or after 30 June 2020:

- ACNC entities with revenue of \$250,000 (increasing to \$500,000 from 1 July 2022)⁵ or more preparing SPFS and required to comply with ACNC reporting requirements;
- NFPs not registered with ACNC lodging SPFS with ASIC (companies limited by guarantee).

The NFP SPFS disclosures are⁶:

- the basis on which the decision to prepare SPFS was made;
- where the entity has interests in other entities, disclose either:

⁴ AAS refer to the *Corporations Act 2001* which requires compliance with AAS for certain entities and the ACNC regulations explicitly refer to compliance with AASB 1054 *Additional Australian Disclosures* and AASB 101 *Presentation of Financial Statements*.

⁵ [Upcoming changes to charity size thresholds are good news for charities | ACNC](#)

⁶ In addition to these disclosures, affected NFPs were already required by AASB 101 to disclose the material accounting policies applied including changes in those policies.

- whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted consistent with AAS, and if not, disclose that fact and the reasons why; or
- that the entity has not determined whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, provided it is not required by legislation to make such an assessment and has not made such an assessment;
- for each material accounting policy that does not comply with all the R&M requirements in AAS (except for consolidation and equity accounting), detail how it does not comply or if such an assessment has not been made, disclose this fact; and
- whether or not the financial statements overall comply with all the R&M requirements in AAS (except for consolidation and equity accounting) or that such an assessment has not been made.

Proposed Changes to APES 205

Table 1 highlights that APES 205's SPFS disclosures overlap with some of the AASB disclosures (as detailed above, the AASB standards require additional disclosures to these):

Table 1:

APES 205 SPFS Disclosure Requirements (para 6.1)	AASB SPFS Disclosure Requirements
(a) that the Financial Statements are Special Purpose Financial Statements	● that the financial statements are SPFS (para 9 AASB 1054)
(b) the purpose for which the Special Purpose Financial Statements have been prepared	● statutory basis or other reporting framework, if any, under which the financial statements are prepared (para 8 of AASB 1054) ● the basis on which the decision to prepare SPFS was made (para 9A & proposed para 9C AASB 1054)
(c) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements	● information about the material accounting policies applied in the SPFS, including information about changes in those policies (proposed para 9C AASB 1054 and para 117 AASB 101) ⁷

The historical purpose of paragraph 6.1 of APES 205 is to ensure that in the absence of other requirements (such as AAS) that SPFS have minimum disclosures. However, if the status quo is maintained, entities that are now subject to AASB SPFS disclosures will be subject to substantively similar and duplicative disclosures under APES 205.

To address this issue and to avoid unnecessary duplication, Technical Staff propose to scope out those entities that are required to comply with AASB SPFS requirements from paragraph 6.1 of APES 205 by adding proposed paragraph 6.2 to state 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 relevant document was created or amended before 1 July 2021; or

⁷ Note there is currently alignment between APES 205 and affected NFP entities required under para 117 of AASB 101 to disclose significant policies. However, this will be amended to material accounting policy information as set out in the discussion in Section 3 below.

- NFPs lodging SPFS with ASIC or the ACNC.

Table 2 lists entities that are not in the scope of the AASB standards, but would continue to be subject to APES 205 to ensure they have minimum SPFS disclosures:

Table 2:

NFPs not in the scope of AASB 2019-4	For-profit entities not in the scope of AASB ED 302
ACNC entities with revenue of less than \$250,000 (increasing to \$500,000 from 1 July 2022)	Required by legislation to prepare financial statements without reference to compliance with AAS or accounting standards
ACNC entities with revenue of \$250,000 (increasing to \$500,000 from 1 July 2022) or more that are not required to comply with ACNC reporting requirements	Required by constituting document or another document to prepare financial statements that comply with accounting standards or generally accepted accounting principles or practices
Required by Federal or State/Territory legislation to prepare financial statements in accordance with AAS or accounting standards that prepare SPFS but not specifically required to comply with AASB 1054 (i.e., incorporated associations, co-operatives and charitable fundraising organisations)	Public sector entities preparing SPFS
Other NFPs, including public sector entities not specified above and not required to comply with AASB 1054	Entities with no legislative requirement, for example, small proprietary companies.

Technical Staff considered whether subparagraphs 6.1(b) and (c) of APES 205 should align with the AASB SPFS disclosure requirements (Table 1). This potential approach would create alignment and consistency between the respective standards and might benefit Members that deal with entities subject to either APES 205 or the AASB SPFS disclosures. However, this would impact all other entities (Table 2) that are only required to comply with APES 205, potentially resulting in additional compliance costs without empirical evidence to suggest that APES 205's existing requirements are deficient.

On balance, Technical Staff do not recommend such amendments. However, we recommend including a Request for Specific Comment within the ED to seek stakeholders' views.

3. AASB Standards Change of Terminology from Significant to Material

The International Accounting Standards Board (IASB) amended certain IFRS Standards following stakeholder feedback to assist entities in making more effective accounting policy disclosures. Before the amendments, entities were required to disclose significant accounting policies, but views varied about what/when it was significant as it was not defined. The IASB also noted some entities did not understand the difference, if any, between 'significant' and 'material' accounting policies. The IASB concluded not to define 'significant' due to potential unintended consequences for other uses of 'significant' in IFRS Standards. Instead, the IASB decided to require entities to disclose material accounting policy information as 'material' is defined in IFRS Standards and well understood.

As a result, the AASB has also recently issued the following amending standards, which make consequential amendments to several AAS:

- Amendments to Australian Accounting Standards – *Disclosure of Accounting Policies and Definition of Accounting Estimates* ([AASB 2021-2](#)); and

- Amendments to Australian Accounting Standards – *Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards* ([AASB 2021-6](#)).

At a high-level, these amendments require entities to disclose material accounting policy information instead of significant accounting policies and clarify that information about measurement bases for financial instruments is expected to be material accounting policy information (effective for annual periods beginning on or after 1 January 2023).

Technical Staff considered whether subparagraph 6.1(c) of APES 205 (see Table 1) should be amended to '*material accounting policies*' or '*material accounting policy information*' to align with the AASB's forthcoming changes. This would align APES 205 and the new AASB requirements creating consistency between the respective standards. However, this would impact entities that are only required to comply with APES 205 (Table 2), potentially resulting in additional compliance costs without empirical evidence to suggest that APES 205's existing requirement is deficient.

On balance, Technical Staff do not recommend such amendments. However, we recommend including a Request for Specific Comment within the ED to seek stakeholders' views.

4. Liaison with the AASB

APESB Technical Staff have liaised with AASB Technical Staff on the above AASB developments and proposed amendments to APES 205.

5. Proposed APES 205 Exposure Draft

A proposed Exposure Draft for APES 205 is attached as Agenda Item 10(b) (marked-up). Technical Staff recommend that the ED be released after AASB 2022-X is released for a public comment period of 45 days as the proposed revisions are not substantive and provide Members with sufficient time to consider the changes. Technical Staff anticipate seeking approval of the final standard at the September 2022 Board meeting.

Small and Medium Practices (SMPs)

Technical Staff believe scoping affected entities out of APES 205 as proposed will benefit SMPs by reducing duplication and the need to apply separate sets of requirements to those entities. Technical Staff are not aware of any other impacts for SMPs at this stage.

Recommendations

The Board:

- note the update on the AASB's additional disclosure requirements in SPFS, the removal of the reporting entity concept for certain for-profit entities and other related developments; and
- approve the issue of an Exposure Draft on proposed revisions to APES 205, subject to:
 - the Board's review comments and editorials; and
 - the AASB issuing the final standard for AASB 2022-X.

Materials presented

Agenda Item 10(a) SPFS Disclosure Requirements – Decision Tree
Agenda Item 10(b) Exposure Draft Proposed Amendments to APES 205 (marked-up)

Author Jon Reid

Date 24 May 2022