



# Technical Accounting Alert

## TA 2019-06

### AASB proposes interim changes to disclosure of compliance with recognition and measurement in special purpose financial statements

#### Introduction

On 4 July 2019, the AASB issued Exposure Draft ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* proposing amendments to AASB 1054 *Additional Australian Disclosures*, requiring all entities lodging special purpose financial statements (SPFS) with either ASIC or the ACNC to disclose information about the extent of compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

Comments on the Exposure Draft are requested by 19 August 2019.

#### Background

Australia is the only jurisdiction with a 'reporting entity' concept that effectively permits entities to self-assess, based on the expected users of their financial statements, what type of financial reporting they are required to prepare when required by legislation or otherwise to prepare financial statements in accordance with AAS. Accordingly, some entities may elect to prepare SPFS instead of general purpose financial statements (GPFS).

The AASB is particularly concerned around the quality of disclosures in a significant number of SPFS and considers it to be unacceptable for publicly lodged financial statements to have such low levels of transparency. While a broader project is underway addressing the problems of SPFS, the AASB decided to propose, as an interim measure, amendments to AAS to require entities preparing SPFS to make an explicit statement as to whether or not the accounting policies applied in the SPFS comply with all R&M requirements in AAS.

The AASB acknowledges that disclosure of this information is not sufficient to address the problems with publicly lodged SPFS, however the AASB decided that an amendment to AAS was urgently needed to provide greater transparency to users of publicly lodged SPFS and to also improve the comparability of SPFS.

As part of the broader project, the AASB is expected to issue two other EDs, proposing:

- The removal of for-profit private sector entities ability to prepare SPFS when required by legislation or by their constituting document or another document to comply with AAS, subject to an exemption for certain entities (expected to be effective for financial years beginning on or after 1 July 2020); and
- To replace the current Reduced Disclosure Requirements (RDR) framework with a new *Simplified Disclosures* framework, which will reduce the disclosures required under the current RDR.

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## Proposed Disclosures

The ED proposes that those entities lodging SPFS with either ASIC or the ACNC (i.e. entities currently require to comply with AASB 1054) shall disclose:

### All entities

- The basis on which the decision to prepare SPFS was made;
- An explicit statement whether or not the accounting policies applied in the financial statements comply with all R&M requirements in AAS;
- Where an entity's accounting policies do not comply with all R&M requirements in AAS, indicate where this non-compliance occurs; and
- If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact and the reasons why.

### Not-for-profit entities

- If a not-for-profit entity has not determined whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, it shall instead disclose that fact.

The AASB also notes it is an important part of a director's duty and an auditor's responsibility to consider and clearly identify the financial reporting framework which forms the basis for the preparation of financial statements.

## Effective date

It is proposed that the amendments be applicable to annual periods ending on or after 30 June 2020, with early adoption being encouraged.

## Further information



If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the Financial Reporting Advising Team [national.assurance.quality@au.gt.com](mailto:national.assurance.quality@au.gt.com).