



# Technical Accounting Alert TA 2019-10

## AASB proposes removal of Special Purpose Financial Statements (SPFS) for certain For-Profit Private Sector Entities

### Introduction

On 15 August 2019, the AASB issued Exposure Draft [ED 297](#) *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

The ED proposes to remove for certain for-profit entities:

- the ability to lodge special purpose financial statements (SPFS) with the Australian Securities and Investments Commission (ASIC); and
- directors' ability to self-assess whether an entity is a 'reporting entity' or not in accordance with SAC 1 *Definition of the Reporting Entity*

Comments on the Exposure Draft are requested by 15 November 2019.

### Background

Many entities currently self-assess whether they are 'reporting entities' and elect to prepare SPFS based on this self-assessment. This has led to a more fundamental 'SPFS problem', when two similar entities might prepare a very different set of financial statements, one preparing general purpose financial statements (GPFS) using a robust and consistent framework, and the other preparing SPFS with self-selected requirements. This reduces the comparability of financial reporting for entities of similar economic circumstances and undermines the fundamental principle of consistency, comparability, transparency and enforceability. For a number of years, broader concerns have been expressed around the volume and quality of special purpose financial statements produced in Australia resulting from the existing self-assessment process.

To address this issue, in May 2018, the AASB 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 was also necessitated by the release of the IASB's revised Conceptual Framework containing a new definition of reporting entity which is different to the reporting entity concept currently applied in Australia.

Following on from its public consultation/redeliberation on Invitation to Comment ITC 39, the AASB has been progressing its project to remove special purpose financial statements for for-profit entities in Australia which has now resulted in the release of ED 297.

The proposals in the ED needs to be considered in conjunction with:



- [ED 295](#) General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities which proposes to introduce a more simplified Reduced Disclosure Requirements (RDR) effective from 1 July 2020; and
- [ED 293](#) *Amendments to Australian Accounting Standards - Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* which requires all entities lodging 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) effective for annual periods ending on or after 30 June 2020. For more information, Grant Thornton's [TA Alert 2019-06](#).

In conjunction with the legislative review of the Australian Charities and Not-for-profits Commission (ACNC), the reporting requirements for not-for-profit entities are expected to be reviewed by the AASB as a separate project sometime in the future and as such the proposals in ED 297 do not apply to not-for-profit entities.

## The Proposals

ED 297 proposes:

- a) amendments to AAS to remove the ability of certain for-profit private sector entities to prepare SPFS by removing the 'reporting entity' concept for those entities required by:
  - i. legislation to prepare financial statements that comply with either AAS or accounting standards; or
  - ii. their constituting document (or another document) to prepare financial statements that comply with AAS, provided the relevant document was created or amended on or after 1 July 2020; and
- b) to provide relief from restating and presenting comparative information in the year of transition for entities transitioning to full R&M requirements.

In addition to those entities that publicly lodge their financial statements, the proposals could impact the following entities, among others:

- 'grandfathered' large proprietary companies (as they are required by legislation to prepare a financial report and they are only exempted from the lodgement with ASIC);
- small proprietary companies controlled by a foreign company and not subject to ASIC class order relief;
- co-operative and mutuals and others who are required by legislation to prepare financial statements that comply with either AAS or accounting standards;
- trusts, partnerships and joint arrangements whose constituting document or another document requires the preparation of financial statements that comply with AAS if the relevant document was created or amended on or after 1 July 2020; and
- others (both private and public sector) that elect to prepare general purpose financial statements (GPFS) and elect to apply the Conceptual Framework.

However, it is worth noting that the proposals will not apply to:

- small proprietary companies controlled by a foreign company and subject to ASIC class order relief;
- trusts, partnerships and joint arrangements unless their constituting documents are created or amended after 1 July 2020;
- not-for-profit entities such as charities, companies limited by guarantee, incorporated associations and public sector entities as their financial reporting framework will be considered via separate targeted consultations; and
- for-profit public sector entities (unless they elect otherwise).



## Effective date

It is proposed that the amendments be applicable to annual periods beginning on or after 1 July 2020, with early adoption permitted.

## Further information



If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at [national.assurance.quality@au.gt.com](mailto:national.assurance.quality@au.gt.com).