

# Technical Accounting Alert

## TA 2020-06

### Removal of special purpose financial statements and the introduction of simplified disclosure framework

#### Introduction

The Australian Accounting Standards Board (“AASB”) has released major reforms to Australian financial reporting requirements that:

- Remove the ability to prepare special purpose financial statements (“SPFS”) for certain for-profit entities; and
- Introduce a new Tier 2 disclosure framework (“Simplified Disclosures”) replacing the existing Reduced Disclosure Requirements (“RDR”).

These new requirements (together, “the Standards”) represent significant changes and challenges for entities impacted. The Standards are effective for annual periods beginning on or after 1 July 2021. Unless entities elect to early-adopt the Standards (that is, for a period beginning on or after 1 July 2020 but before 1 July 2021), restated comparatives will be required to comply with the Standards.

#### Background

Many entities currently self-assess whether they are ‘reporting entities’ and elect to prepare SPFS based on this self-assessment. This has resulted in a situation whereby two similar entities may prepare financial statements utilising different frameworks; one preparing general purpose financial statements (“GPFS”) using a robust and consistent framework, and the other preparing SPFS with self-selected accounting policies. This reduces the comparability of financial reporting and undermines the fundamental financial reporting principles of consistency, comparability, transparency and enforceability. For a number of years, broader concerns have been expressed regarding the volume and quality of SPFS produced in Australia as a result of the self-assessment process.

In order 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 – a definition different to the reporting entity concept applied in Australia.

Following public consultation/redeliberation on ITC 39, the AASB progressed its project to remove SPFS for for-profit entities in Australia, resulting in the release of ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* in August 2019. This ED was issued in conjunction with ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* which proposed to introduce a more simplified Tier 2 disclosure framework, replacing the previous RDR framework with a goal of minimising the impact of the increase in disclosures arising from the transition from SPFS to GPFS financial statements.

Following its discussions and redeliberation of the proposals at the March 2020 board meeting, the AASB has now formally published the final requirements in the form of:

- Amending Standard AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*; and
- AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

It is important to note that these changes should be considered in the context of the increase in Corps Act financial reporting thresholds which became effective on 1 July 2019 (consolidated revenue increased from \$25m to \$50m, consolidated gross assets increased from \$12.5m to \$25m, and number of employees increased from 50 to 100) as these changes effectively reduce the population of entities impacted by these reforms.

## Removal of special purpose financial statements

### *For-profit entities*

Removal of SPFS is only applicable to certain for-profit entities. Under the new requirements, the following entities will no longer have the ability to prepare SPFS:

Type of entities	Examples
Entities preparing financial statements under Part 2M.3 of the <i>Corporations Act 2001</i>	<ul style="list-style-type: none"> <li>• Large proprietary (including grandfathered entities)</li> <li>• Unlisted public (other than companies limited by guarantee),</li> <li>• Small foreign-controlled companies,</li> <li>• Australian Financial Services Licence holders</li> <li>• Small proprietary companies with crowd-sourced funding</li> </ul>
Entities required by a legislation to prepare financial statements that comply with “Australian Accounting Standards” (AAS) or “Accounting Standards”	<ul style="list-style-type: none"> <li>• Co-operatives</li> <li>• Mutuels</li> </ul>
Entities required by 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 2021.  <i>Note: entities with constituting documents issued and approved prior to 1 July 2021 will not be required to comply with the Standards.</i>	<ul style="list-style-type: none"> <li>• Trusts</li> <li>• Partnerships</li> <li>• Joint arrangements</li> </ul>
Other entities that elect to prepare GPFS in accordance with the revised Conceptual Framework*  <i>* Note that entities not required by legislation, constituting or other documents or for-profit public sector entities, which voluntarily prepare GPFS will be required to apply the revised Conceptual Framework for Financial Reporting.</i>	For-profit entities (both private and public sectors)

## *Not-for-profit entities*

Not-for-profit entities are unaffected by the removal of SPFS. 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.

## *Transition & effective date*

AASB 2020-2 (with AASB 1060) will be mandatory for annual periods beginning on or after 1 July 2021 with comparatives required to be restated unless the changes are early adopted. Transition relief on comparatives is only available to entities that early adopt the Standards.

Entities that currently prepare SPFS that comply with all recognition and measurement requirements in Australian Accounting Standards (including consolidation and equity accounting) will need to transition to GPFS in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The only transition relief available for such entities is that they are permitted to not disclose comparative information for any new disclosures where the entity early adopts the Standards.

Entities that do **not** currently prepare SPFS that comply with all recognition and measurement requirements in Australian Accounting Standards will have a choice to transition using either AASB 1 *First-time Adoption of Australian Accounting Standards* or AASB 108. These entities will benefit from the additional relief available in AASB 1 for some areas (e.g. no retrospective business combination accounting and using deemed cost to measure certain items).

Common areas of departure from AAS include, but are not limited to:

- Non-preparation of consolidated financial statements;
- Non-application of equity-method accounting for associates;
- Non-application of tax-effect accounting; and
- Accounting for derivatives (including forward and future contracts) using a method other than fair value through profit or loss.

At transition, entities will be required to provide a reconciliation of changes in equity occurring as a result of transition accounting. In addition, at transition entities are permitted to treat previous non-compliance with R&M as transitional adjustments rather than as error corrections.

## *Introduction of Simplified Disclosure Standard*

AASB 1060 is a new stand-alone standard replacing the existing Reduced Disclosure Requirements. It will apply to all eligible Tier 2 entities in the for-profit, not-for-profit and public sectors.

It is important to note that AASB 1060 does not change:

- Which entities are permitted to apply Tier 2 requirements; and
- The recognition and measurement requirements for Tier 2 (which are the same as for Tier 1).

The new disclosure framework significantly reduces the level of disclosures in a number of areas compared to the RDR, particularly:

- AASB 15 *Revenue from Contracts with Customers*;
- AASB 16 *Leases*;
- AASB 7 *Financial Instruments: Disclosures* ;
- AASB 128 *Interests in Associates & Joint Ventures* ;
- AASB 3 *Business Combinations*; and
- Other income & expense disclosures, including impairment.

In addition, it allows entities to not present a Statement of Changes in Equity in certain circumstances.

Certain areas will require increased disclosures, however these are generally niche (including hedge accounting, and defined benefit schemes). Increased disclosure requirements that are more likely to impact entities including:

- Lessees: maturity analysis of future lease payments;
- Lessors: variable lease payments recognised as income and loss allowance for lease receivables;
- Business combinations: qualitative factors that make up goodwill; and
- General information about the entity (including domicile) and audit fees.

### *Transition & effective date*

Consistent with the effective date of AASB 2020-2, AASB 1060 will be mandatory for annual periods beginning on or after 1 July 2021, with a requirement to restate comparatives unless the changes are early adopted. Transition relief on comparatives is only available to early adopters.

Entities are permitted to not disclose comparative information for any new disclosures where the entity early adopts AASB 1060.

### 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) or Financial Reporting Advisory at [fra@au.gt.com](mailto:fra@au.gt.com).