

FACTSHEET IMPORTANT CHANGES TO THE AUSTRALIAN FINANCIAL REPORTING FRAMEWORK

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Introduction

This factsheet is a quick guide to the latest decisions of the Australian Accounting Standards Board (AASB) on their project to:

- remove the ability of some for profit entities to prepare Special Purpose Financial Statements (SPFS) and
- introduce a new Tier 2 General Purpose Financial Statements (GPFS) framework that will replace SPFS for some for profit entities and for entities that currently prepare Tier 2 GPFS.

This factsheet has been developed jointly by CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) to inform our members and other stakeholders about the key aspects of these important changes to Australia's financial reporting framework.

What has happened?

In March 2020 the AASB released two new standards:

- [AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities \(AASB 2020-2\)](#)
- [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities \(AASB 1060\)](#)

When do the new standards become mandatory?

AASB 2020-2 and **AASB 1060** both apply to financial years beginning on or after 1 July 2021, i.e. for financial years ending 30 June 2022 and beyond. Early adoption is permitted and, to encourage early adoption, the AASB is providing specific transitional relief (see below) that is only available to entities who choose this option.

The AASB's decision to defer the proposed operative date by one year reflects stakeholder feedback on the implementation timetable (including the CA ANZ/CPA Australia joint [submission](#)).

Who is impacted by the new standards?

- **AASB 2020-2** removes the ability of **for-profit entities** with legislative or other reporting requirements requiring compliance with Australian Accounting Standards (AAS) to prepare SPFS. The changes will impact large proprietary companies (including grandfathered companies) and financial services licensees, other Corporations Act entities such as unlisted public companies (other than those limited by guarantee), and small proprietary companies that are either foreign-controlled or comply with crowd-sourced equity funding requirements, as well as cooperatives and mutuals. There is an exemption for entities such as trusts, partnerships and joint arrangements whose reporting requirements are contained in non-statutory documents (such as in their constituting or other documents). However, if those documents are created or amended after 1 July 2021 and include, or retain, a requirement to comply with AAS, then these entities will be impacted and will need to move to preparing GPFS to satisfy their reporting obligations.
- **AASB 1060** applies to all for-profit entities who are no longer able to prepare SPFS because of AASB 2020-2. It also applies to all for-profit and not-for-profit (NFP) (private and public sector) entities that currently prepare Tier 2 GPFS using the AASB's Reduced Disclosure Regime (RDR).

Who is not impacted by the new standards?

- **AASB 2020-2** does not apply to for profit entities whose financial reporting requirements do not make reference to compliance with AAS. It also does not apply to private sector NFPs whose reporting requirements will be the subject of a separate consultation later this year, nor to public sector entities whose requirements will be considered subsequently.

- **AASB 1060** does not apply to entities that prepare Tier 1 GPFS and any entity that remains eligible to prepare SPFS.

What is required under the new standards?

- Entities within the scope of **AASB 2020-2** will no longer be able to use SAC 1 *Definition of the Reporting Entity* (SAC 1) to determine whether they can prepare SPFS. Instead, their minimum reporting requirements will now be a Tier 2 GPFS. This report must comply in full with the recognition and measurement requirements of AAS, including the need for consolidation and/ or equity accounting where applicable. Disclosure relief from full AAS is provided by the requirements of AASB 1060.
- **AASB 1060** is a new self-contained standard that sets out all of the disclosure requirements relevant to a Tier 2 GPFS. Based on the IASB's IFRS for SMEs standard, the new disclosures have been significantly simplified when compared to either those required by a Tier 1 entity or those required under the AASB's existing Tier 2 RDR, especially in the areas of revenue, leases, impairment and financial instruments.

What about those entities currently preparing Tier 2 GPFS under the RDR framework?

- **AASB 2020-2** has no impact.
- **AASB 1060** will replace the current Tier 2 RDR framework for periods commencing on or after 1 July 2021. Therefore, these entities will be required to transition to the new standard.

What about early adoption?

Although the AASB has delayed the proposed implementation date of these new standards to financial years ended 30 June 2022, it encourages early adoption of the changes. Reasons for early adoption include:

- Transitional relief from disclosing comparative information is only available to those who choose early adoption of the new standards.
- AASB research has identified the existence of users of the financial statements of large proprietary companies, who have indicated they would benefit from the financial information provided in GPFS. This additional information may be relevant to a large proprietary company's annual assessment of compliance with SAC 1.
- For profit entities that choose to continue to prepare SPFS for their 30 June 2021 financial years will be subject to additional disclosure requirements about their compliance with recognition and measurement requirements of AAS (see below).

The proposed additional mandatory SPFS disclosures referred to above are currently open for comment as [AASB ED 302 Disclosure in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities](#). If implemented, they will require disclosure of the reasons why an SPFS has been prepared, the material accounting policies applied and the extent to which these policies comply with the recognition and measurement requirements of AAS, including the requirements for consolidation/equity accounting of interests in other entities.

These proposed additional disclosures will also apply to those entities with constitutional reporting requirements to prepare "financial statements in accordance with accounting standards" if these documents were prepared prior to 1 July 2021. These entities include self-managed superannuation funds (SMSFs), trusts, partnerships and joint arrangements because they are exempt from AASB 2020-2 and so do not need to transition to GPFS. The new disclosures will apply to their SPFS whenever the references to 'accounting standards or AAS' remain unamended in those constitutional documents.

Comments on ED 302 close on 11 September 2020 and the AASB plans to have an amending standard in place for annual reporting periods ending on or after 30 June 2021 and will encourage early adoption. The two accounting bodies will be making a submission and welcome member feedback on the proposals.

Next steps

Members and their clients are encouraged to become familiar with the reforms and to assess and identify what transition option (early adoption or mandatory adoption) best fits their individual circumstances to ensure that the costs of transition are effectively managed.

More information

- [AASB website](#) – including [March meeting Action Alert](#), [AASB 2020-2 media release](#) project history, forthcoming education materials, [AASB ED 302 media release](#)
- CA ANZ website – [Special purpose reporting page](#)
- CPA Australia [financial reporting professional resources](#)

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This factsheet was prepared by CPA Australia ABN 64 008 392 452 (CPAA) and Chartered Accountants Australia and New Zealand ABN 50 084 642 571 (CA ANZ).

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