

FACTSHEET 1 (Version 2) IMPORTANT CHANGES TO THE AUSTRALIAN FINANCIAL REPORTING FRAMEWORK

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Introduction

This factsheet is a quick guide to the decisions of the Australian Accounting Standards Board (AASB) on their for-profit financial reporting framework project that :

- removes the ability of some for profit entities to prepare Special Purpose Financial Statements (SPFS), and;
- introduces a new Tier 2 General Purpose Financial Statements (GPFS) framework that will replace:
 - SPFS prepared by some for profit entities and
 - Tier 2 GPFS based on Reduced Disclosure Requirements (RDR under AASB 1053).

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.

It should also be noted that, as an amending standard AASB 2020-2 contains updates to a number of Australian Accounting Standards (AAS) in order to effect the removal of SPFS for some entities.

Who is impacted by the new standards?

- **AASB 2020-2** removes the ability of **for-profit entities** with legislative or other financial reporting requirements requiring compliance with AAS to prepare SPFS. Specifically:
 - Entities with legislative requirements to prepare financial statements in accordance with "Australian Accounting Standards" or "accounting standards" are affected. The changes will impact large proprietary companies (including grandfathered companies) and all financial services licensees¹, 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) if such reporting requirements make specific reference to compliance with "Australian Accounting Standards". However, if those documents are created or amended after 1 July 2021 and include, or retain, a requirement to comply with

¹ The reforms capture all AFSL's (regardless of the size of the entity or the nature of its other financial statement users). This is because the reporting requirements in ASIC Form FS 70 (which has legislative backing) require AFSLs to prepare GPFS in accordance with accounting standards. ASIC will be updating FS 70 and its associated guides and class orders later in 2021 and is likely to mandate lodgement of a Tier 1 GPFS.

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 RDR framework.

Who is not impacted by the new standards?

- **AASB 2020-2** does not apply to for profit entities whose financial reporting requirements do not refer to compliance with AAS as described above. It also does not apply to private sector not for profit (NFP) entities 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 Statement of Accounting Concept 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. The financial statements must comply in full with the recognition and measurement requirements of AAS, including the need for consolidation and/ or equity accounting where applicable. The presentation requirements of full AAS will also apply to entities preparing Tier 2 GPFS. Disclosure relief from full AAS is provided by the requirements of AASB 1060.
- **AASB 1060** is a self-contained standard that sets out all of the disclosure requirements relevant to a Tier 2 GPFS. Based on the disclosure requirements of the IASB's IFRS for SME's 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. The new disclosure package is referred to the AASB's Simplified Disclosure Standard (SDS).

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 set the implementation date of these changes to financial years ended 30 June 2022 and beyond, it encourages early adoption of the changes. Reasons for early adoption include:

- Transitional relief from disclosing comparative information.
- 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.

To also assist NFP entities that currently prepare Tier 2 GPFS based on RDR who may wish to early adopt the new Tier 2 SDS regime, AASB 1060 has been updated by [AASB 2021-1: Transition to Tier 2:](#)

[Simplified Disclosures for Not-for-Profit Entities](#). This amendment provides those NFPs transitioning to SDS from RDR with optional relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent GPFS.

What about other for-profit entities that have reporting requirements that specify compliance with AAS?

As noted above, AASB 2020-2 contains an exemption for entities such as trusts, partnerships and joint arrangements with reporting requirements in non-statutory documents (such as in their constituting or other documents) drafted before 1 July 2021 that specify compliance with “Australian Accounting Standards.”

While these entities can continue to prepare SPFS they should expect to be subject to extra disclosure requirements. Late last year (see [November AASB Action Alert](#)) the AASB decided to make amendments to AASB 1054 that will require certain for-profit private sector entities that prepare SPFS to disclose information about the accounting policies applied in those SPFS, along with information about the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards. The purpose of the amendments is to ensure the basis of preparation is clear where an entity asserts compliance with Australian Accounting Standards in its SPFS.

As of the date of this publication, an amending Standard is still being developed and has not yet been issued but the disclosures are expected to apply to reporting periods beginning on or after 1 July 2021.

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

- [Relevant information published on the AASB website:](#)
 - [AASB webinars on the removal of SPFS \(Part 1, Part 2 and Part 3\)](#)
 - [AASB Phase 2 Project summary](#)
- CA ANZ website – [Special purpose reporting page](#)
- CPA Australia [financial reporting professional resources](#)
- AUASB bulletin [Audit considerations on the removal of special purpose financial statements for certain for-profit private sector entities](#)

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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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