

Prepared in accordance with AASBs



31 July 2019

Highlights

- Financial reporting framework update
- What's the issue?

Financial reporting framework update

The IASB issued a revised *Conceptual Framework for Financial Reporting* (RCF) in March 2018. The AASB proposed a two-phased approach to adopt the RCF in Australia. As part of the AASB's financial reporting framework project it is considering an entity's ability to prepare financial statements in accordance with Australian Accounting Standards.

The application of the RCF is as part of Phase 1 limited to:

- for-profit **private** sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards
- other for-profit entities that **voluntarily** elect to apply the RCF.

Phase 2 will consider other for-profit private sector entities that are required to prepare financial statements in accordance with Australian Accounting Standards.

What's the issue?

As part of the wider AASB's financial reporting framework project it is considering an entity's ability to prepare financial statements in accordance with Australian Accounting Standards. ITC 39 *Applying the IASB's revised conceptual framework and solving the reporting entity and special purpose financial statement problems* (ITC 39) proposed to apply to for-profit **private** sector entities that have public accountability and/or are required (by legislation or constitutional document) to comply with Australian Accounting Standards.

Respondents to ITC 39 identified some entities that may be affected by the amendments proposed in Phase 1, including trusts that are required by their **constitutional document** (rather than legislation) to prepare financial statements that comply with Australian Accounting Standards. They do not have any legislative requirement to prepare such financial statements and may be preparing special purpose financial statements (SPFS). This includes securitisation trusts and certain public sector trusts.

The AASB noted that while **changing constitutional documents** is possible, it can be onerous and if not done correctly can have tax consequences. Many trust deeds may have template wording referring to compliance with Australian Accounting Standards without the trustees or the beneficiaries having considered whether this would need to involve the preparation of general purpose financial statements. Based on feedback, these trusts may provide detailed information to their beneficiaries about their financial performance and position on a regular basis.

It was also **observed** that entities that do not have any legislative requirement to prepare financial statements and are required only by their constitution or trust deed to comply with Australian Accounting Standards:

- often will not need to confirm compliance with IFRS Standards
- have members which in the past have been comfortable with the amount of information provided in the form of SPFS.

As such the AASB did not consider it appropriate to mandate the preparation of general purpose financial statements (GPFS) – Tier 1 for such entities as part of Phase 1.

This ensures the reporting requirements of entities with public accountability that do not have a legislative requirement to prepare financial statements will not be affected by Phase 1.

The appropriateness of this limitation will however be reconsidered as part of Phase 2 after further research and outreach. The AASB also confirmed that those for-profit entities wanting to voluntarily comply with Tier 1 and IFRS Standards should be permitted to do so, including for-profit entities in the public sector.

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