

IPA Guide

(September 2022)

NEW FINANCIAL REPORTING FRAMEWORK

(Removal of Special Purpose Financial Statements and Reduced Disclosure Requirements)

1. Key points

1. In 2020, the Australian Accounting Standards Board (AASB) issued two new standards:

- **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*.

In June 2022, the AASB issued **AASB 2022-4** *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities [AASB 1054 & AASB 1057]* (refer to paragraph 4 below).

2. AASB 2020-2 and AASB 1060 set **new reporting requirements** of:

- No longer permitting many private sector for-profit entities (FPE) from preparing Special Purpose Financial Statements (SPFS).
- Replacing Tier 2 Reduced Disclosure Requirements (RDR) framework with a Simplified Disclosures (SD) Standard for FPE and for not-for-profit entities (NFPE).
- Instead, the affected entities must prepare either General Purpose Financial Statements (GPFS) or GPFS – Simplified Disclosures (GPFS-SD).
- Entities that prepare GPFS-SD must apply:
 - All the recognition and measurement requirements in Australian Accounting Standards (AAS) and
 - The disclosures as set out in AASB 1060.
- GPFS continues to apply all AAS requirements for recognition, measurement and disclosures.

3. The new standards are **effective** for annual reporting periods beginning on or after 1 July 2021.

4. **Other issues** to note:

- Removal of the “reporting entity” concept to determine if an entity prepares GPFS or SPFS for affected entities.
 - Section 2 below provide more detail on the affected entities.
- Instead, an entity uses AASB 1053 *Application of Tiers of Australian Accounting Standards* to determine if it prepares either:
 - Tier 1: Australian Accounting Standards (GPFS) or
 - Tier 2: Australian Accounting Standards – Simplified Disclosures (GPFS-SD).



Provides a summary of the new financial reporting framework.

- Reporting requirements for Tier 1 entities with public accountability remain unchanged.
 - However, where a private FPE's constituting document or another document, requires the entity to prepare SPFS that complies with AAS, the entity must in its financial statements include disclosures as prescribed by the amendments specified in AASB 2022-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities [AASB 1054 & AASB 1057]*.
 - This is on the proviso that the constituting document or another document that the private FPE's financial statements to comply with AAS was created before 1 July 2021 and not amended on or after that date.
 - AASB 2022-4 was issued in June 2022 and amends AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards* to effect the prescribed SPFS disclosures.
5. Determining how an entity is affected by AASB 2020-2 and AASB 1060 can be complex. The sections below provide guidance on the new reporting framework with Charts 1, 2 and 3 summarising the guidance in the form of flow charts for an entity to determine the applicable reporting framework.

2. Affected entities

1. The **affected entities** are:
 - Private sector FPE that are required by legislation to prepare financial statements that are compliant with AAS or accounting standards.
 - Other private sector FPE that are required by their constituting document or another document to prepare financial statements that comply with AAS, provided that the relevant document was created or amended after 1 July 2021.
2. Based on paragraph 1 above, the **affected entities include**:
 - All private and public sector FPE and NFPE that previously reported under Tier 2 RDR framework.
 - Entities that previously prepared SPSF that are compliant with AAS or accounting standards.
3. The **affected entities** are **required** to determine whether they prepare GPFS (Tier 1) or GPFS-SD (Tier 2).

3. Determining Tier 1 or Tier 2 Reporting

1. The general principle is that an entity uses AASB 1053 to determine if it prepares GPFS (Tier 1) or GPFS-SD (Tier 2). Below provides guidance for such a determination.

3.1 TIER 1 ENTITY

2. A Tier 1 entity prepares **GPFS** if it is:
 - (a) A private sector FPE that has **public accountability** and
 - (b) **Required by legislation** to prepare financial statements that comply with AAS or accounting standards.
3. GPFS (Tier 1) reporting also applies to the Australian Government and State, Territory and Local Government. This Guide does not address the reporting requirements for these entities.
4. For more detail on the:
 - Public accountability concept, refer to paragraphs 5 to 7 below and
 - Legislative requirements to comply with AAS or accounting standards, refer to paragraphs 8 to 10 below.



Public accountability

5. An entity has public accountability if:
 - (a) **Its debt or equity instruments are traded in a public market** or it is in the process of issuing such instruments in a public market (a domestic or foreign market) or
 - (b) **It holds assets in a fiduciary capacity** for a broad group of outsiders as one of its primary business.
6. FPE that are **deemed** to have **public accountability** are:
 - Disclosing entities, even if their debt or equity instruments are not traded in a public market or in process of being issued for trading in a public market.
 - This includes entities listed (debt or equity) on stock exchanges.
 - Co-operatives that issue debentures.
 - Registered managed investment schemes.
 - Superannuation plans regulated by Australian Prudential Regulatory Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 *Regulation of Small APRA Funds*, December 2000.
 - Authorised deposit-taking institutions.
7. FPE **that hold assets in a fiduciary capacity** for a broad group of outsiders as one of its primary business:
 - Include entities that hold and manage assets entrusted to them by clients, customers or members not involved in the management of the entity. For examples:
 - Australian Financial Services (AFS) licensees holding client monies.

- Banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.
- Exclude entities where assets held for reasons incidental to the primary business.
 - For examples, travel/real estate agents, schools, charitable organisations, and co-operatives.

Legislative requirements to comply with AAS/accounting standards



8. AASB 2020-2 details two categories of entities that are required to prepare GPFS:
 - (a) FPE in the private sector that are required by legislation to prepare financial statements that comply with AAS or accounting standards. For example, the *Corporations Act 2001* and
 - (b) Other FPE in the private sector that are required by the entity's constituting document or another document (ie non-legislative requirements) to prepare financial statements that comply with AAS. This is on the proviso that the relevant document was created or amended on or after 1 July 2021 to require compliance with AAS.
9. Examples of paragraph 8(b) above are:
 - Trusts, partnerships, joint arrangements and self-managed superannuation funds where the constituting documents require the entity to prepare financial statements that comply with AAS.
 - A loan agreement that requires the entity to prepare financial statements that comply with AAS.
10. Reference to compliance with AAS or accounting standards is taken to mean Australian Accounting Standards issued by the AASB.

3.2 TIER 2 ENTITY



11. An entity prepares GPFS-SD (Tier 2) if it is a:
 - (a) FPE in the private sector without public accountability
 - (b) NFPE in the private sector or
 - (c) Public sector entity, other than Australia Government and State, Territory and Local Governments.
12. A Tier 2 entity can elect to prepare GPFS (Tier 1).

3.3 TIER 1 AND 2 REPORTING REQUIREMENTS

13. A **Tier 1** entity prepares **GPFS** by applying all the recognition, measurement, and disclosure requirements in AAS.
14. A **Tier 2** entity prepares **GPFS-SD** by applying
 - all the recognition and measurement requirements in AAS and
 - the disclosure requirements as set out in AASB 1060.



15. The **main differences** between GPFS (Tier 1) and GPFS-SD (Tier 2) disclosures are:
- GPFS-SD contains simpler and less disclosures in the areas of revenue, leases, impairment and financial instruments.
 - GPFS requires disclosures, such as
 - Financial instrument exposures and risks
 - Related party transactions and
 - Interest in joint arrangements and associates.
16. In applying the new financial reporting framework, an entity needs to consider the **transitional requirements**, such as those contained in:
- AASB 1053
 - AASB 1060
 - AASB 1 *First-time Adoption of Australian Accounting Standards* and
 - AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
 - AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*.
 - AASB 2022-2 *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1*
 - AASB 2022-2 was issued in May 2022 and amends AASB 1 and AASB 1053 to assist entities with preparing GPFS for the first-time. This includes certain private FPE that can no longer apply the reporting entity concept of prepare SPFS.

3.4 AFS LICENSEES REPORTING REQUIREMENTS

(Applicable for 30 June 2022)

17. AFS licensees are required to prepare financial reports under Chapter 2M and Chapter 7 of the *Corporations Act 2001* with:
- AASB specifying the accounting standards for Chapter 2M financial reports and
 - ASIC Form FS 70 “Australian financial services licensee profit and loss statement and balance sheet” specifying the accounting standards for Chapter 7 financial reports.
18. In response to the new reporting framework, ASIC (in June 2022) announced amendments to Form FS 70 (Media Release 22-128MR) for reporting requirements for AFS licensees.
- Revised Form FS 70 was issued in July 2022.
 Link to ASIC 22-128MR
<https://asic.gov.au/about-asic/news-centre/find-a-media-release/2022-releases/22-128mr-asic-announces-financial-reporting-changes-for-afs-licensees/>
19. The **general principle for AFS licensees’ financial reports** is that they must contain consistent disclosures with the financial reports of other FPE in the application of AAS.



Provides guidance on ASIC AFS Licensees reporting requirements.

20. FP companies, registered schemes and disclosing entities that prepare Chapter 2M financial reports must **apply the public accountability test** to determine if they prepare Tier 1 GPFS or Tier 2 GPFS-SD.
 - Such FPE that were previously not reporting entities can no longer prepare SPFS if they are an entity with public accountability.
21. ASIC requires the application of Chapter 2M reporting requirements and the “public accountability” test for Chapter 7 financial reports of most AFS licensees.
 - The “public accountability” concept is as per those in AASB 1053 (refer paragraphs 5 to 7 above).
22. However, **some AFS licensees are required to prepare Tier 1 GPFS** to avoid doubt as to whether they have public accountability. These include licensees that typically hold client moneys or assets, or because they are large or sophisticated licensees with greater market impact. These licensees are:
 - Regulated by the Australian Prudential Regulatory Authority
 - Participants in a licensed market
 - Participants in a clearing and settlement facility
 - Retail over-the-counter derivative issuers
 - Wholesale electricity dealers
 - Corporate advisors that deal in financial products
 - Over-the-counter derivative traders
 - Wholesale trustees
 - Responsible entities of a registered scheme
 - Corporate directors of a corporate collective investment vehicle
 - Providers of a custodial or depository service
 - Operators of an investor directed portfolio service.
23. AFS licensees with public accountability must apply all recognition, measurement and disclosure requirements in accounting standards when preparing their financial reports (ie prepare Tier 1 GPFS).
24. All licensees must apply all the recognition and measurement requirements in AAS and prepare:
 - Cash flow statements and
 - Single entity financial statements and consolidated financial statements where the licensee has controlled entities.
25. Under the new disclosure requirements, licensees that previously prepared SPFS may need to disclose financial instrument risks and exposures, related party transactions, lease accounting and interests in joint arrangements and associates.

26. The new disclosure requirements are effective for annual reporting periods beginning on or after 1 July 2021 with the following transitional provisions.
- AFS licensees that prepared SPFS last year and do not prepare reports under Chapter 2M can elect to defer the new disclosure requirements until reporting periods beginning on or after 1 July 2022 (ie next financial year).
 - Comparative information does not need to be disclosed in the first report prepared under the new requirements.

It is likely that many licensees will defer the application of the new disclosures by one year.

4. Requirements under development

1. The new financial reporting framework has necessitated a revision of a number of existing requirements by the Accounting Professional & Ethical Standards Board (APESB) and the AASB developing a new NFP private sector reporting framework.

4.1 CONFORMITY WITH ACCOUNTING STANDARDS – APESB PROPOSED CHANGES

2. The Accounting Professional & Ethical Standards Board (APESB) is assessing the impact of the new reporting framework on Accounting Professional & Ethical Standards (APES).
3. APESB's assessment may result in amendments to APES 205 *Conformity with Accounting Standards*. APESB 205 specifies the professional obligations of all members to comply with Accounting Standards when they prepare, present, audit, review or compile financial statements, which are either GPFS or SPFS.
4. IPA will revise this Guide to incorporate the changes in APESB's requirements.



Guidance
in Chart 3

4.2 TIER 3 REPORTING – AASB PROPOSED CHANGES

5. The AASB is currently developing a NFP private sector financial reporting framework in the form of a new Tier 3.
6. The primary objectives of the Tier 3 reporting are to further simplify the recognition and measurement requirements and disclosures that can be audited and enforced.
7. The AASB intends to issue a public consultation paper in the second half of 2022.

Abbreviations

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AFS	Australian Financial Services
APES	Accounting Professional & Ethical Standards
APESB	Accounting Professional & Ethical Standards Board
APRA	Australian Prudential Regulatory Authority
ASIC	Australian Securities and Investments Commission
FPE	For-profit entity
GPFS	General Purpose Financial Statements
GPFS-SD	General Purpose Financial Statements – Simplified Disclosures
NFPE	Not-for-profit entity
RDR	Reduced Disclosure Requirements
SD	Simplified disclosures
SPSF	Special Purpose Financial Statements

Resources

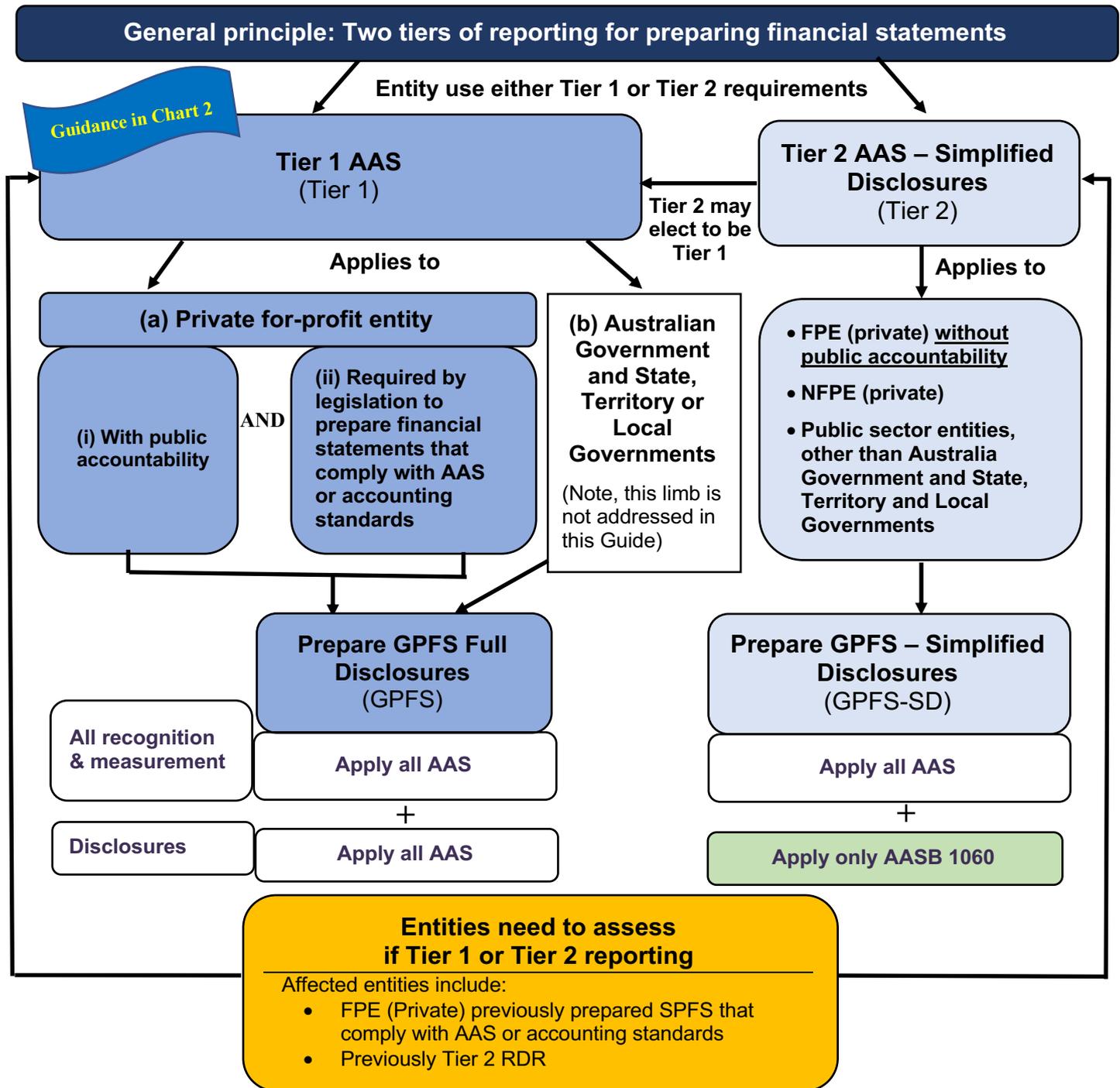
- **AASB 1** *First-time Adoption of Australian Accounting Standards*
(https://aasb.gov.au/admin/file/content105/c9/AASB1_07-15_COMPdec20_07-21.pdf)
- **AASB 108** *Accounting Policies, Changes in Accounting Estimates and Errors*
(https://aasb.gov.au/admin/file/content105/c9/AASB108_08-15_COMPmar20_07-21.pdf)
- **AASB 1053** *Application of Tiers of Australian Accounting Standards*
(https://aasb.gov.au/admin/file/content105/c9/AASB1053_06-10_COMPmar21_07-21.pdf)
- **AASB 1060** *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*
(https://aasb.gov.au/admin/file/content105/c9/AASB1060_03-20_COMPmar21_07-21.pdf)
- **AASB 2020-2** *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector entities*
(https://aasb.gov.au/admin/file/content105/c9/AASB_2020-2_03-20.pdf)
- **AASB 2021-1** *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities*
(https://aasb.gov.au/admin/file/content105/c9/AASB2021-1_03-21.pdf)
- **AASB 2022-2** *Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1*
(https://aasb.gov.au/admin/file/content105/c9/AASB2022-2_05-22.pdf)
- **AASB 2022-4** *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities [AASB 1054 & AASB 1057]*
(https://aasb.gov.au/admin/file/content105/c9/AASB2022-4_06-22_.pdf)
- **AASB Staff Paper, “Key facts: AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities”**
(https://www.aasb.gov.au/admin/file/content102/c3/AASB1060_KeyFacts_03-20_1585193851825.pdf)
- **AASB Not-for-Profit Private Sector Financial Reporting Framework** Project Summary
https://aasb.gov.au/media/3taa00kk/ps_afr-nfp_03-25.pdf

Table of revisions

IPA Guide (April 2022)	First publication of the Guide
IPA Guide (June 2022)	<p>The June version of the Guide amends the April 2022 version to include:</p> <ul style="list-style-type: none"> • ASIC’s reporting requirements for AFS licensees following the revision of Form FS 70 <i>Australian financial services licensee profit and loss statement and balance sheet</i> that is available in late June 2022 and • AASB’s issue of <i>AASB 2022-2 Amendments to Australian Accounting Standards – Extending Transition Relief under AASB 1</i> in May 2022
IPA Guide (September 2022)	<p>The September version of the Guide amends the June 2022 version to include the AASB’s issue of <i>AASB 2022-4 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities [AASB 1054 & AASB 1057]</i> in June 2022</p>

CHART 1 SUMMARY OF NEW FINANCIAL REPORTING FRAMEWORK

(Effective for reporting periods beginning 1 July 2021)



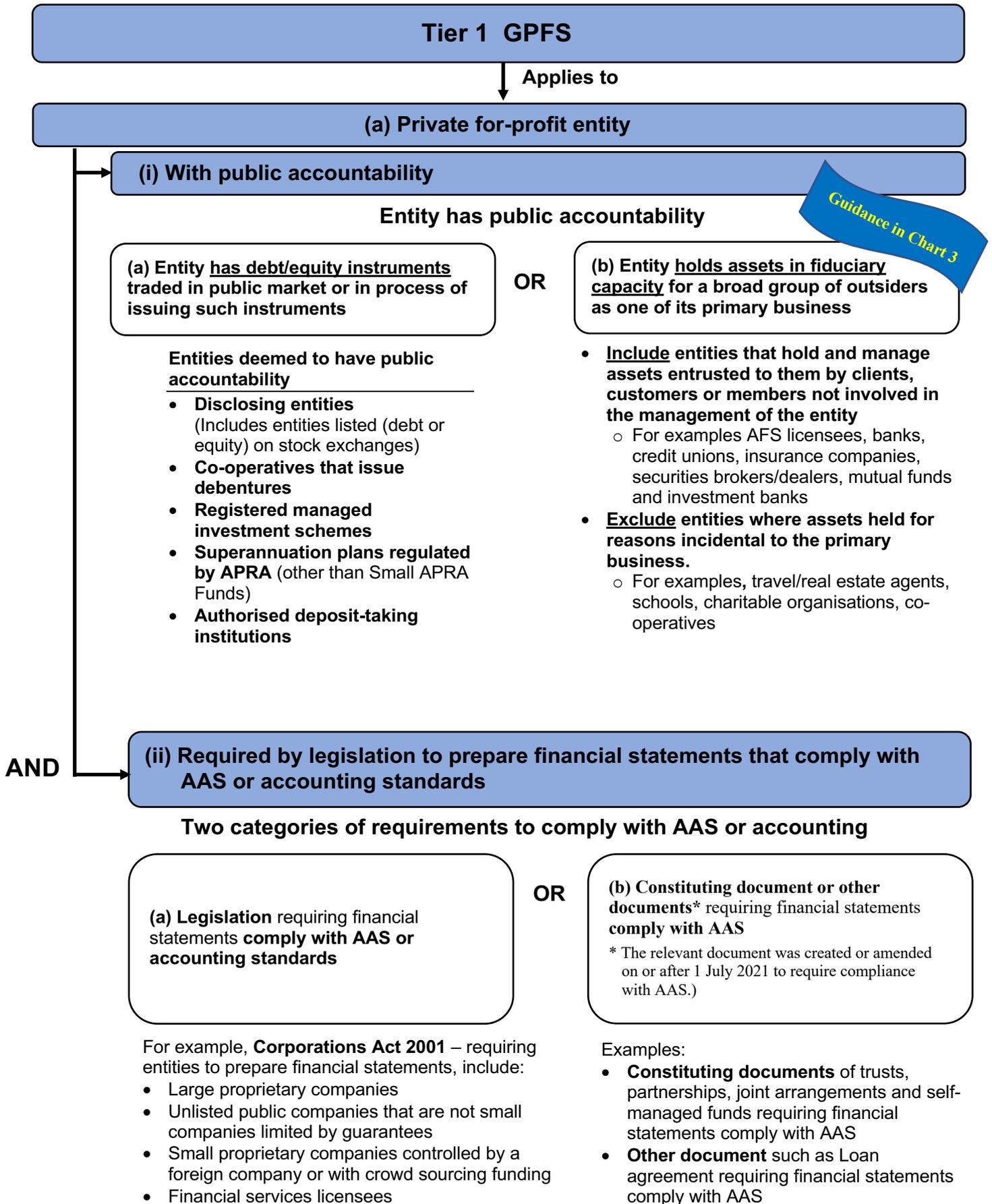
Key issues to note:

- Many FPE (private) can no longer prepare SPFS
- Removal of “reporting entity” concept for affected entities in determining GPFS/SPFS preparation
- Previously Tier 1 with public accountability remains unchanged
- Tier 2 entities can elect to be Tier 1 and prepare GPFS full disclosures but cannot state compliance with IFRS
- Refer to AASB 2022-4 for SPFS additional disclosures
- References to AAS or accounting standards means AAS issued by the AASB

ABBREVIATIONS

AAS	Australian Accounting Standards	NFPE	Not-for-profit entity
FPE	For-profit entity	SD	Simplified Disclosures
GPFS	General purpose financial statements	SPFS	special purpose financial statements

CHART 2 DETERMINING TIER 1 REPORTING



General principle: AFS Licensees' financial reports must contain disclosures consistent with other for-profit entities in AAS application

Financial reporting specified by *Corporations Act 2001*

Chapter 7 AFS Licensees
Via ASIC Form FS 70
(Revised FS 70 issued July 2022)

Chapter 2M
AASB specifies AAS applicable for Chapter 2M financial reports
(Applies to companies, registered scheme, disclosing entities)

General principle under AASB
Entity prepares either Tier 1 or Tier 2 financial reports based on whether entity has "public accountability"

Most licensees
Use public accountability test to determine if prepare Tier 1 GPFS

ENTITY WITH PUBLIC ACCOUNTABILITY
Entity has:
(a) Debt/equity instruments traded in public market or in process of issuing such instrument
OR
(b) Hold assets in fiduciary capacity for a broad group of outsiders as one of its primary business

Some licensees**
Prepare Tier 1 GPFS to avoid doubt in determining if licensees have public accountability

YES → **TIER 1 GPFS**
NO → **TIER 2 GPFS-SD**

- ** Licensees with accountability** (include licensees that hold client monies/assets) or are large/sophisticated licensees with greater market impact. These licensees are:
- Regulated by APRA
 - Participants in a licensed market, or in a clearing and settlement facility
 - Retail over-the-counter derivative issuers
 - Wholesale electricity dealers
 - Corporate advisors dealing in financial products
 - Over-the-counter derivative traders
 - Wholesale trustees
 - Responsible entities of registered scheme
 - Corporate directors of corporate collective investment vehicle
 - Providers of custodial or depository service
 - Operators of investor directed portfolio service

Both Tier 1 and Tier 2 must:

- (1) Apply full recognition + measurement requirements in AAS
- (2) Prepare cash flow statements (CFS)*
- (3) Prepare single entity + Consolidated financial statement (FS)*

* Previous regime only required CFS and consolidated FS for GPFS (ie Tier 1) and not SPFS. SPFS previously can elect to report under RDR (Reduced Disclosure Requirements). FP Entities reporting under Chapter 2M can no longer prepare SPFS.

TIER 1 Disclosures
As per all applicable AAS

TIER 2 Disclosures
As per AASB 1060 only

- Implication is Tier 1 discloses:
- (1) Financial instrument exposures & risks
 - (2) Related party transactions
 - (3) Leases as lessee and
 - (4) Interest in joint arrangements and associates.

Transitional provisions:

- Licensees that previously prepared SPFS and did not prepare reports under Chapter 2M can elect to defer new disclosure requirements to financial years commencing on/after 1 July 2022
- Comparative information need not contain new disclosures in first report under new requirements

- Abbreviations:
- AAS Australian Accounting Standards
 - APRA Australian Prudential Regulatory Authority
 - CFS Cashflow financial statement
 - FS Financial statements
 - GPFS General purpose financial statements
 - SPFS Special purpose financial statements