Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas

The future of special purpose reporting

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Special purpose financial reports have been a part of Australia's financial reporting framework for over 25 years. However planned AASB reforms will significantly impact the use of these reports for many entities, with the changes likely to impact the for profit sector from as early as 1 July 2020. These changes are some of the most significant reporting reforms since IFRS adoption in 2005 and therefore member input is vital to allow CA ANZ to effectively advocate with the AASB to achieve workable outcomes.

This article provides a brief overview of the reforms to assist members understand the likely costs and benefits of the AASB's proposals. Our advocacy relies on your views so we need your input as these changes progress. Feedback in any form at any time is welcome via submission.feedback@charteredaccountantsanz.com.

What's the AASB proposing?

The AASB has foreshadowed removing SAC 1 *Definition of the Reporting Entity* (SAC 1) which means that the reporting entity assessment and special purpose approach to preparing financial statements will no longer be part of Australian accounting standards. Therefore entities required to lodge accounts with regulators that comply with accounting standards will need to prepare a general purpose financial statements (GPFS). However the tiered approach to these GPFSs will continue, with full IFRS applying for publicly accountable (Tier 1) entities while a new, much simplified disclosure regime will apply to Tier 2 (non publicly accountable) entities. First to be impacted by the changes will be for profit lodging entities, including companies, with new rules possibly applying from 1 July 2020. However, changes are in the wind for not-for-profit (NFP) entities and in the public sector too, as later phases of the AASB's work.

Why does the framework need to change?

The inclusion of SAC 1 into the Australian reporting framework in 1990 sought to ensure that financial reporting requirements were based on identified user needs. However since then, the use of the concept has caused a significant variation in the content of financial statements lodged on the public record, which the AASB identified as an area of concern. These differences arise because content can be based largely on management's assessment of what the financial statements should contain, rather than on content requirements set by the AASB or regulators.

What will replace special purpose financial statements?

The AASB proposed two options for the content for the 'new' Tier 2 GPFS in its previous consultation, however neither gained widespread support. CA ANZ suggested disclosure requirements needed to be more substantially rolled back to avoid long and superfluous financial statements that would confuse rather than help users and business owners.

In light of the feedback received, the alternative Tier 2 GPFS proposal the AASB is developing contains the following key elements:

- Mandatory application of all of the recognition and measurement requirements of all the AASB standards
- Mandatory consolidation of subsidiaries, and equity accounting for associates and joint ventures
- A simplified disclosure regime, located in a single standard, based on the International IFRS for SMEs —as a starting point. This is a much lower level of disclosure than previous proposals and is also lower than that in our current reduced disclosure regime under AASB 1053.

The AASB has also decided to offer relief so that affected entities will not need to restate their comparative information on transition.

What sort of non-reporting entities will need to use the new Tier 2 GPFS?

Top of the list for entities impacted by the removal of SAC 1 are of course large private companies lodging special purpose financial statements with ASIC. However Treasury's doubling of the thresholds that define 'large' earlier this year reduced their population by about a third rendering the AASB's current plans to mandate a Tier 2 General purpose financial report more workable in this space. Of ongoing concern are a large range of other entities that are required to lodge financial statements to other regulators.

We are working with the AASB and with other regulators to make sure they are aware of the impacts, and where appropriate they may adjust lodgement requirements accordingly. For example, some regulators that currently require financial reports may find their needs are now better served by an information statement or another alternative that provides a degree of proportionality.

The AASB is focused on this issue and their recently released Research Report 10 *Legislative and regulatory financial reporting requirements* identifies the different types of for profit entities likely to be impacted. Major ones include:

- Companies with lodging requirements such as large proprietary companies, small foreign-controlled proprietary companies and unlisted public companies
- Public sector for-profit entities
- Large and certain small and medium indigenous corporations
- Medium and large incorporated associations
- Large co-operatives and some small co-operatives (where directed)
- Franchisors (before entering a franchise agreement)
- Non-government approved providers of residential care services

- Higher education providers
- Certain funeral funds.

The AASB's currently plans that trusts and other entities who have only a non-legislative requirement that their financial reports comply with Australian accounting standards (i.e. in their trust deed) will not be captured unless their constituting documents are created or amended after 1 July 2020.

What are the AASB's next steps?

In order to achieve reform for financial years beginning on or after on 1 July 2020 (30 June 2021 year ends) the AASB will be releasing a series of exposure drafts (EDs) over the next few months. These will contain proposals to:

- Implement an interim amendment to AASB 1054 Additional Australian Disclosures requiring all lodging entities preparing special purpose financial statements to identify their justification for doing so and whether or not the SPFS complies with all the recognition and measurement requirements of the accounting standards. It will also require, if the entity has subsidiaries or investees, disclosure of whether they consolidate or equity account in accordance with the standards, and if not, why not. This change is intended to impact all lodging entities, particularly charities and companies, for the June 2020 year-end. – ED expected June 2019
- Revise the disclosure package that will apply to Tier 2 GPFS (see above) – ED expected July 2019
- Remove SAC 1 from the reporting framework for for-profit entities (see above) – ED expected August 2019.

What about NFPs?

The AASB is currently considering separately its approach to the NFP sector. It is liaising with the NFP regulators, including the ACNC, to identify appropriate and sector specific reform requirements. Its initial discussions suggest that three or more tiers might be required to ensure reporting requirements are appropriate for the size and complexity of the entity. A separate consultation paper will be released when the AASB has concluded its deliberations.

Until such time, NFPs should watch the for-profit developments as some of these changes will impact NFPs too (particularly the planned amendments to AASB 1054 and the new simplified disclosure regime which will be made available to not-for-profits until the longer term reforms are in place).

The AASB has also released ED 291 *Not-for-Profit Entity Definition and Guidance* developing a new definition for "not-for-profit" that will support discrete reporting frameworks for for-profits and not-for–profit entities. The proposed definition is based on the New Zealand definition of "public benefit entity" and the ED is open for comment until 9 September.

How has CA ANZ been involved in this project?

CA ANZ has been actively engaged with the AASB and other regulators as mentioned above – we are focused on advocating for a workable reporting framework that includes appropriate proportionality and is effective toward its objectives. Our previous member survey in 2018 provided valuable insights that informed both our submissions on ITC 39. These submissions called on the AASB to continue its research to illuminate the needs of users, as ensuring user needs are met in a cost effective way must be the final objective of any reform in this area. What is now important is to ensure that the alternative reporting model replacing special purpose does achieve this outcome.

To ensure this occurs, we are seeking member input on those costs and benefits, information that will be invaluable in assisting us to work with the AASB to produce a workable new framework. Therefore please respond to the AASB ED's or contact our Reporting and Assurance team directly at submission.feedback@charteredaccountantsanz.com with your views.

More information

Through our technical e-newsletter (Reporting and Assurance News) we aim to keep you up to date with the proposals as they develop. You can also find more information on the AASB's website in its February, April and June 2019 Action Alerts and under the 'Hot Topic' button on the AASB website, in a document titled *Applying the IASB's Conceptual Framework and solving the Reporting Entity and special purpose financial statements problem*.