The Australian Standard Setters’ Responses to Current Challenges Facing Financial Reporting

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AASB Research Director
Agenda

• AASB work program
• Research areas of focus
• Wrap-up & Q&A
AASB Work Program

- Major projects
- Implementation projects
- Agenda consultation
- PIRs
- Education
AASB Agenda Consultation

**Purpose:** to seek views from Australian constituents on projects the AASB should be addressing that are primarily *domestic* in nature.

The AASB addresses external reporting issues in relation to:

- public sector entities;
- not-for-profit (NFP) entities; and
- Australian specific issues relating to for-profit entities.

**AASB proposed topics (tentative)**

- Sustainability reporting
- Digital reporting
- Service performance reporting

ITC expected to be released September 2021
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<tr>
<th>Project</th>
<th>Objectives</th>
<th>Milestones and timing</th>
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| Not-for-profit private sector financial reporting framework  | • Development of a simple, proportionate, consistent and transparent financial reporting framework for NFP private sector entities in Australia.  
• Outcomes include possible simplification to requirements for smaller NFP (i.e. Tier 3).                                                                                                                                                                                   | Discussion paper – Q4 2021                                                           |
| Fair Value Measurement for Not-for-Profit Entities           | • Provide guidance to assist not-for-profit public sector entities in applying AASB 13 *Fair Value Measurement*.  
• Provide guidance to assist NFP lessees (in both private and public sector) in measuring the fair value of right-of-use assets arising from concessionary leases.                                                                                                                      | Submission to the IPSASB on the ED 76 and ED 77 incl. targeted consultation – Q2/Q3 2021 |
| Going Concern                                                | • To influence the IASB to undertake a fundamental review of the requirements related to going concern disclosures and the basis of accounting where the going concern assumption is no longer appropriate.                                                                                                                                         | Submission to the IASB Agenda Consultation – Q3 2021                                  |
| Audit engagement related disclosures                        | • consider the evidence gathered and the issues identified in RR15 and address adequacy of current audit engagement-related disclosures in AASB 1054 in response to PJC recommendation 3(i) and 6                                                                                                                                   | Next discussion → Sep 2021                                                           |
## Major International Projects

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| Sustainability Reporting     | IFRS Foundation Trustees’ [Consultation Paper on Sustainability Reporting](#) addressing:  
• whether there is a need for global sustainability standards;  
• whether the IFRS Foundation should play a role; and  
• what the scope of that role could be.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | The Trustees proposed changes to the Foundation’s Constitution to formalise a new board                                                                                                                                                                                                                   |
| Goodwill and Impairment      | The objective of this project is to present to the IASB methods used by analysts and investors to assess impairment on a more-timely basis and the information in the financial statements considered beneficial to users.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | IASB deliberating feedback on the DP                                                                                                                                                                                                                                                                   |
| Primary Financial Statements | The objective of this project is to:  
• Introducing defined subtotals in the statement of financial performance  
• Providing better information on management performance measures (i.e. non-GAAP information)  
• Improving disaggregation in primary financial statements                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | IASB deliberating feedback on the ED                                                                                                                                                                                                                                                                   |
| Management commentary        | The IASB is revising IFRS Practice Statement 1 [Management Commentary](#) (Practice Statement) to consider how broader financial reporting could complement financial statements prepared applying IFRS Standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Exposure Draft issued May 2021                                                                                                                                                                                                                                                                         |
## Major International Projects

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<th>Project</th>
<th>Objectives/Comments</th>
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<td>Business combinations under common control</td>
<td>The objective is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.</td>
<td>Submission to IASB – Q3 2021</td>
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<td>PIR of IFRS 10, 11 and 12</td>
<td>A Post-implementation Review is structured in two phases. Currently, the Board's Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 is in the first phase, which involves an initial identification and assessment of the matters to be examined.</td>
<td>Feedback submitted to IASB in May 2021</td>
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<td>Agenda consultation</td>
<td>The objective of agenda consultation is to seek public comments on:</td>
<td>Submission to IASB – Q3 2021</td>
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<td>• the strategic direction and balance of the Board’s activities;</td>
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<td>• the criteria for assessing the priority of financial reporting issues that may be added to the Board’s work plan; and</td>
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<td>• financial reporting issues that should be given priority in the Board’s work plan.</td>
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NFP Financial Reporting Framework

Current landscape and key issues

- Needs of the users compared to costs to preparers
- Significantly lower level of R&M compliance in charities’ SPFSs
- Diverse population of entities preparing financial statements
- Self-assessment of reporting entity and GPFS vs SPFS & significant judgement
- Varied financial reporting requirements based on state of incorporation
- Resulting lack of comparability, consistency and transparency between financial reports
- Research suggests to report on impact, transparency and accountability often in the form of financial and non-financial information
- IASB revised Conceptual Framework ‘reporting’ entity clash with AASB 1057 and SAC 1 definition of reporting entity
- Complexity surrounding non-financial reporting, balancing needs of the users with costs to preparers and ability to assure

Source: Invitation to Comment No 39, AASB Research Report No 5, 10, 11, 14 and 16, AASB DP Improving Financial Reporting for Australian Charities, ACNC Legislation Review 2018
## Initial Design Considerations

### Reporting Tiers
- **Tier 1**: Full IFRS recognition & measurement (R&M) and disclosures
- **Tier 2**: Full IFRS R&M and Tier 2 Simplified disclosures
- **Tier 3 / [Tier 4]**: Simplified or Modified accrual Accounting
- • Cash accounting

### Reporting Requirements
- Proportionate to size of the entity

### Opting up permitted?
- Tier 1 applied on voluntary or mandatory basis for some entities?

### Service Performance Reporting in scope?
- Diverse views from stakeholders
- Information value to users vs costs to preparers
- Scope across public and private NFP sector

### Possible reference points for additional Tier(s)?
- NZ Tier 3&4 PBE standards
- IFRS for SMEs
- UK FRS 102/105/Charities SORP
- #IFR4NPO
- Other jurisdictions
- Specific underlying principles using above as reference points

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**Tiers currently available under Australian Accounting Standards for reporting entities preparing general purpose financial statements. Entities self-assessed as non-reporting entities can elect to prepare special purpose financial statements (AASB 2020-2 only for certain FP entities).**
NFP Financial Reporting Framework

Board’s tentative decisions to date:

• The existing two tiers (Tier 1 and Tier 2) continue to be available;

• Develop a further reporting tier (‘Tier 3’);

• Not to specify application thresholds for the tiers;

• Not to include any service performance reporting proposals in this consultation document and address in a separate project;

• To consult on proposal to remove ability to prepare SPFS for NFP entities from AAS;

• ‘User needs’ and ‘cost/benefit’ as overarching principles, consider transactions commonly undertaken by NFP entities with revenues between $500k and $3m (indicative boundary for identifying common transactions)
NFP Financial Reporting Framework

Board’s tentative decisions for Tier 3 reporting requirements

• To develop Tier 3 reporting requirements as a single stand-alone pronouncement that will:
  
  a) be drafted in simple language using terminology tailored to NFP private sector entities of the size contemplated by the Board for Tier 3 entities (revenue between $500,000 and $3 million);

  b) have minimal cross-referencing to requirements of other Australian Accounting Standards;

  c) include a simple Basis for Conclusions; and

  d) include application guidance, implementation guidance and template financial statements.
Recent Education Webinars

AASB staff hosted three webinar on the removal of special purpose financial statements and the introduction of simplified disclosures. The webinars covered:

<table>
<thead>
<tr>
<th>Part 1 - Scope</th>
<th>Part 2 – Transitional Relief</th>
<th>Part 3- Audit Implications</th>
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| This webinar covered:  
  • which for-profit private sector entities are affected;  
  • what they need to know about preparing their first set of simplified disclosures financial statements; and  
  • for those entities that are not in-scope and can continue to prepare SPFS, what this means for them.  

The slide pack can be found [here](#) and watch the recording [here](#).  

| This webinar explained the transition relief and options available for entities that will be required to transition to AASB 1060 General Purpose Financial Statements — Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.  

The slide pack can be found [here](#) and watch the recording [here](#).  

| This webinar outlined the audit implications for:  
  • entities transitioning from special purpose financial statements; and  
  • entities transitioning from Tier 2 – Reduced Disclosure Requirements  

The slide pack can be found [here](#) and watch the recording [here](#).
Post-implementation Reviews

In progress

• AASB 1049 Whole of Government and General Government Sector

2022

• AASB 1058 Income of Not-for-Profit Entities

• AASB 1059 Service Concession Arrangements: Grantors

• AASB 10 Appendix E Consolidated Financial Statements Australian implementation guidance for not-for-profit entities

• AASB 12 Appendix E Disclosure of Interests in Other Entities Australian implementation guidance for not-for-profit entities
## Current research topics

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| **Not-for-profit users and user needs** | • The objective is to identify users and user needs of NFP (private and public sectors) financial reports; and determine whether there is information gap between user needs and the current financial reports.  
  • The research is expected to involve interviews and surveys to gather data for analyses from a wide range of users and preparers for NFP financial reports. The findings will contribute to the considerations of *NFP Private Sector Financial Reporting* Framework project and other related NFP projects. | H2 2021 begin research |
| **Leases (with MASB)**           | Research into the choices made by lessees when transitioning from IAS 17 Leases to IFRS 16 Leases and for the ongoing application of IFRS 16. The purpose of the research project is to identify any relevant lessons that might inform the application of other new and revised IFRS Standards, including the types of choices that should be made available to entities adopting a Standard. | Ongoing               |
Recent Research Reports & Publications
AASB Research Forum 2021

Does the presence of significant judgement complexity about OCI items impact the decisions of non-professional and professional investors? The case of 'Other Comprehensive Income'

Dr Troy Yao (QUT)
Associate Professor Tyge Kummer (QUT)
Associate Professor Majella Percy (Griffith)
Emeritus Professor Jenny Stewart (Griffith)

An evaluation of the impacts of the adoption of AASB 15 Revenue from Contracts with Customers

Le Ma, University of Technology Sydney
Sebastian Onie, University of Technology Sydney
Helen Spiropoulos, University of Technology Sydney
Peter Wells, University of Technology Sydney

Decision Usefulness: A re-examination of the information needs of non-profit GPFR users

Dr Craig Furneaux, Queensland University of Technology
Professor David Gilchrist, University of Western Australia

Monday, 29th November 2021  
To be confirmed
AASB Research Forum 2022

Expressions of Interest open until 30 August 2021

✓ Present research to AASB Members & staff
✓ Present research to IASB Members
✓ Influence future of financial reporting
✓ Provide thought leadership on new issues
✓ Access to AASB resources and stakeholders
✓ Past RF papers have been published
✓ Exposure to stakeholders beyond academia

For more info, find EOI on:
• www.aasb.gov.au
• AFAANZ website & newsletter
AASB Resources

- Staff papers and research reports
- Hot Topics – guidance and reference material on the latest developments in standard setting
- YouTube channel – view AASB webinars & other recordings

Getting Involved

- identify Standards or Interpretations applicable to a reporting period
- news alerts & media releases
- weekly newsletter
- forums, roundtables, webcasts
- international guests & key experts
- the latest developments on AASB projects
- see Exposure Drafts & AASB submissions
Thank You.

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