

Does the impending change to the Conceptual Framework for Financial Reporting affect you?

FEBRUARY ISSUE

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In May 2018 the Australian Accounting Standards Board (AASB) released a consultation paper resulting from the International Accounting Standards Board's (IASB) ongoing drive to revise and update the Conceptual Framework for Financial Reporting.

Any changes to the Conceptual Framework will impact our Australian reporting framework as the AASB ensures Australian accounting standards are kept in line with the international financial reporting standards (IFRS). The revised conceptual framework (RCF) will include a revised definition of the "reporting entity". As a result, SAC1 Definition of the reporting entity, which is currently adopted in Australia, will be removed.

As some entities struggle to decide if they are a reporting or a non-reporting entity, the revised framework will bring consistency to financial reporting by removing the option of preparing special purpose financial statements (SPFS).

One of the biggest issues which will need to be addressed is the changes which will be required to legislation which currently allow for the preparation and lodgement of special purpose financial statements.

Effect on businesses

The most significant impact will be on entities who report under legislation which allows the choice of preparing of special purpose financial statements. These include AFSL holders, foreign controlled entities and unlisted public companies. It may also impact many charities reporting to the ACNC. These entities may now be required to produce general purpose financial statements (GPFS) which, even with an option for reduced disclosure, will be onerous for many of them.

The new framework

It was reported that the AASB's preferred option would be to adopt a two phase approach with no more than 2 years between the two phases:

Phase 1

Phase 1 will have two conceptual frameworks:

- Tier 1 entities will prepare GPFS in accordance with the revised conceptual framework which includes the new definition of "reporting entity".
- All other entities (Tier 2 and SPFS entities) will continue to apply the current existing framework.

At its November 2018 meeting, having considered all submissions made, the AASB decided to proceed with Phase 1.

The following should be noted:

- Phase 1 will be limited in application to Tier 1 entities i.e. those in the for-profit private sector that have public accountability;
- It will not cover entities which are not required by legislation to comply with Australian Accounting Standards;
- It was identified that some entities, e.g. entities undertaking crowd-funding, which traditionally prepared SPFS may be considered to have public accountability and therefore the impact of Phase 1 is uncertain. The AASB will consider this in a separate sub-project.



Phase 2:

It is likely Phase 2 will result in one conceptual framework – General Purpose Financial Statements. However, within this one framework will be two tiers.

Tier 1: GPFS for all publicly accountable entities and those that voluntarily prepare Tier 1 GPFS. The Tier 1 framework is IFRS compliant.

Tier 2: GPFS for entities that are not publicly accountable. This will either be:

- i. the existing Tier 2 GPFS Reduced Disclosure Requirements OR
- ii. a new Tier 2 GPFS Specified Disclosure Requirements

Submissions received for Phase 2 will be considered in the AASB's April 2019 meeting. Phase 2 proposals will only apply to for-profit entities.

The AASB will hold separate consultations on how the RCF should be implemented for not-for-profit entities.

ASIC's response

The proposed changes have been welcomed by ASIC who made the following statement:

"ASIC fully supports the consultation to remove special purpose financial statements for entities regulated by ASIC and remove the subjective 'reporting entity' test under SAC 1 facilitating a comparable, consistent and transparent framework for preparation of financial statements in Australia."

What do you need to do?

The earliest date any changes will be mandatory will be for financial periods commencing on or after 1 January 2020. This will likely apply to Tier 1 entities under Phase 1 above. The start date for all other entities is yet to be announced.

We at Hall Chadwick QLD will keep you up to date with all proposed changes. If you believe the above changes will affect your financial reporting requirements and wish to discuss the resulting impact, please contact your Hall Chadwick QLD advisor.

To find out how we can help, contact our office:

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