

Farewell SPFS... Welcome SD

Reporting Update
2 April 2020, 20RU-006



Special purpose financial statements gone for certain for-profit entities

New GPFS-Tier 2 disclosure standard

Both measures effective 1 July 2021

Differential transitional relief

Highlights

- The short version...
- Removal of SPFS – For-profit private sector entities
- A single Simplified Disclosures (SD) standard to replace Reduced Disclosure Requirements (RDR)
- More resources

The short version...

Phase Two of the Australian Accounting Standards Board (AASB) approach to adopting the revised *Conceptual Framework for Financial Reporting* (RCF) has been achieved.

The ability of certain for-profit private sector entities to prepare special purpose financial statements (SPFS) has been removed. These entities will be required to prepare a form of general purpose financial statements (GPFS). The amendments (set out in AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*) were approved by the AASB in March 2020. These amendments will work in conjunction with the new GPFS-Tier 2 SD standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Both AASB 2020-2 and AASB 1060 will apply for financial reporting periods beginning on or after 1 July 2021, with early adoption permitted. Both standards need to be applied at the same time.

The mandatory application date is a year later than was proposed in the Exposure Drafts relating to the standards. As a consequence, the transitional relief available will depend on whether the entity chooses to apply the requirements early.

Both AASB 2020-02 and AASB 1060 make consequential amendments to various Standards, including amending the applicability of the 'reporting entity' definition in AASB 1057 *Application of Australian Accounting Standards*.

Removal of SPFS – For-profit private sector entities

Who is impacted?

Removal of SPFS confined to for-private entities

For-profit private sector entities that are required by legislation to prepare financial statements that comply with either AAS* or accounting standards

Other for-profit private sector entities that are required only by their constituting or other document to prepare financial statements that comply with AAS*
(provided relevant document was created or amended on or after 1 July 2021)

Other for-profit entities (public or private sector) that elect to prepare GPFS
(apply the revised Conceptual Framework)

* Australian Accounting Standards

This means that for-profit entities regulated by ASIC (for example, large proprietary companies, and small foreign-owned companies) who may be currently preparing SPFS will need to prepare and lodge GPFS – either Tier 1 or Tier 2.

Refer to [Appendix 3](#) for discussion on:

- the significance of constituting or other documents in place at 1 July 2021
- why in some places AASB 2020-2 refers to Australian Accounting Standards (AAS) and in others it refers to accounting standards
- for those entities not covered by these amendments how those charged with governance should determine the basis of preparation.

Strict conditions for 'grandfathering' of constituting and other documents

KPMG comment

"For those for-profit entities not in scope, SPFS may continue to be prepared. The AASB has stated that it expects that the directors or those charged with governance will need to consult with their user needs to determine an appropriate basis of preparation (including selection of appropriate accounting policies) when next preparing financial statements. This may be consistent with the most recent SPFS.

The issue is that the directors or those charged with governance will need to establish a process for the above consultation with users. This process should consider all users of the financial statements including owners, bankers, creditors, employees and any applicable regulators. The process will need to be robust and should be reconsidered each time the entity prepares financial statements."

**Michael Voogt
Director, Department of Professional Practice**

The amendments do not impact not-for-profit (NFP) entities that prepare SPFS. Their continued ability to prepare SPFS will be considered as part of the ongoing Australian Financial Reporting Framework project for NFP private sector entities.

AASB 2020-2 amends the applicability of SAC 1 *Definition of the Reporting Entity* so that it continues to apply to for-profit entities that do not need to apply the RCF

Differentiated transitional relief

(for example, for-profit public sector entities and those whose constituting document was created or amended before 1 July 2021), as well as to NFP entities.

[Appendix 1](#) provides further examples of which types of entities would generally be in or out of scope of the amendments.

[Appendix 2](#) provides a flow diagram of the Australian private sector financial reporting framework and what basis financial statements will now be required to be prepared, from annual periods beginning on or after 1 July 2021.

Further discussion on the background to the changes made in AASB 2020-2 can be found in:

- [19RU-013 Removal of SPFS – ED 297](#)
- [AASB key facts on AASB 2020-2](#)

Transition

The mandatory application date of financial reporting periods beginning on or after 1 July 2021 is a year later than was proposed in the Exposure Drafts relating to the standards. As a consequence, the transitional relief available will depend on whether the entity chooses to apply the requirements early to periods beginning before 1 July 2021 (for example, 30 June 2020 and 30 June 2021 financial year ends), or only from the mandatory effective date for periods beginning before 1 July 2022 (for example, apply first time in 30 June 2022 financial year end).

The table below sets out the available transitional relief, depending on the period to which the amendments are first applied.

Transitional relief	First apply in reporting period beginning before 1 July 2021	First apply in reporting period beginning before 1 July 2022
Correction of errors	✓	✓
Comparative information not previously disclosed in notes	✓	–
Restating comparative information	✓	–
Application of AASB 1:		
• Not apply all R&M	✓	✓
• Consolidation/equity accounting	✓	✓

The transition provisions are included in the amendments to AASB 1053 *Application of Tiers of Australian Accounting Standards*. An entity need not apply the transitional relief – in which case it will apply a fully retrospective transition in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

KPMG comment

“Transitional relief has been provided as a practical consideration to reduce the costs incurred by entities to transition.

We can see little incentive to early adopt as where you adopt at either 30 June 2021 or 30 June 2022 the entity will still need to record the debits/credits applying all recognition and measurement (R&M) AAS requirements (including consolidation and equity accounting) from 1 July 2020.

If an entity does not early adopt (i.e. as at 30 June 2021) then:

- its 2021 financial report will be determined on its 30 June 2020 basis of preparation – which may not apply all R&M AAS requirements
- its 2022 financial report (including the 2021 comparatives) will be determined under all R&M AAS requirements.

So the 2021 numbers reported between the 2021 and 2022 financial statements may be different.”

Michael Voogt
Director, Department of Professional Practice

Transitional relief explained

The transitional provisions explained below must be considered in the context of the table above, as not all transitional relief is available where an entity applies the amendments from the mandatory effective date. Some of the transitional relief is only available where early adoption occurs. Appendix 4 provides a flow diagram illustrating the transitional relief available depending on an entity’s circumstances.

Correction of errors

For entities moving from SPFS and applying GPFS-Tier 2 SD reporting requirements for the first time there is no requirement to distinguish between the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its most recent previous SPFS.

This means that an entity that discovered an error in its previous SPFS does not need to separately address this in its first GPFS-Tier 2 SD financial statements and is able to apply the transitional relief in AASB 1 *First-time Adoption of Australian Accounting Standards* or elect to apply AASB 108 (i.e. fully retrospectively).

Comparative information not previously disclosed in notes

An entity applying AASB 1060 (see below) need not present comparative information in the notes if the entity did not disclose the comparable information in its most recent previous financial statements.

This means that either an entity moving from SPFS to GPFS-Tier 2 SD or and entity moving from GPFS-Tier 2 RDR to GPFS-Tier 2 SD is able to avail themselves of this relief.

Restating comparative information

Notwithstanding AASB 1 requirements, comparative information is not required to be restated in the year of transition. Transitional provisions state that reference to the ‘date of transition to Australian Accounting Standards’ in AASB 1 means the beginning of the first AAS reporting period, as opposed to the beginning of the earliest comparative period.

This changes the date of transition to the beginning of the reporting period, rather than the beginning of the earliest comparative period. This means that the comparatives presented will be those amounts presented in the most recent previous financial statements.

Where an entity avails itself of this relief, it must:

- disclose a reconciliation of its closing equity in its most recent previous financial statements and the opening equity at the date of transition
- disclose a description of the main adjustments that would have been required to make the comparative Statement of profit or loss and other comprehensive income compliant with AAS. Adjustments are not required to be quantified
- prominently label the comparative information that is not compliant with AAS as such.

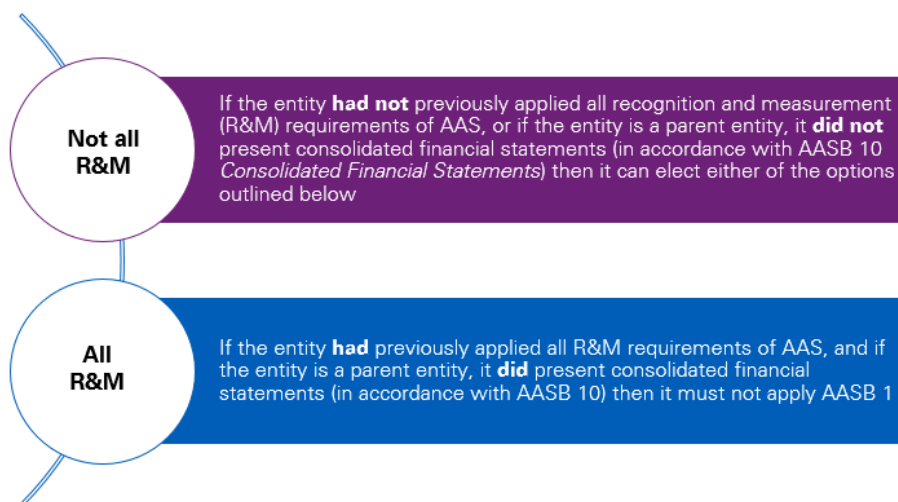
Practical approach provided for R&M differences

Early adoption relief

Early adoption relief

Application of AASB 1

When applying GPFS-Tier 2 SD reporting requirements for the first time (i.e. the entity prepared its most recent previous financial statements in the form of SPFS):



Options – Not all R&M

The entity applies either:

- all relevant requirements of AASB 1 (i.e. provides some relief from full retrospective application), or
- GPFS-Tier 2 SD reporting requirements directly using the requirements of AASB 108 (i.e. full retrospective application).

All R&M

For entities preparing SPFS that are already complying with the R&M requirements in AAS, and consolidating subsidiaries and equity accounting investments in associates and joint ventures (if applicable), the transition from SPFS to GPFS-Tier 2 SD will be limited to the provision of additional disclosures.

KPMG comment

“Given:

- **the changes in the larger proprietary thresholds (Corporations Act 2001) – which impact years ended 30 June 2020 (and onwards), and**
- **the government/regulator discussion around larger proprietary companies having economic significance**

entities will need to reconsider whether they still qualify as a non-reporting entity in accordance with SAC1 (refer to discussion above). Where this is not the case entities will need to prepare GPFS.

Where GPFS are required for 30 June 2020, entities will need to assess whether to apply GPFS Tier 2 RDR or GPFS Tier 2 SD. In such cases we would recommend that the entity elect to apply GPFS Tier 2 (SD) – otherwise they will need to transition from RDR to SD at 30 June 2022 (i.e. transition twice in two years).”

Michael Voogt

Director, Department of Professional Practice

Clarity in basis of preparation to be reconsidered

GPFS-Tier 2 RDR framework replaced by GPFS-Tier 2 SD all contained in one disclosure standard

Delayed removal of SPFS – additional disclosures about R&M compliance

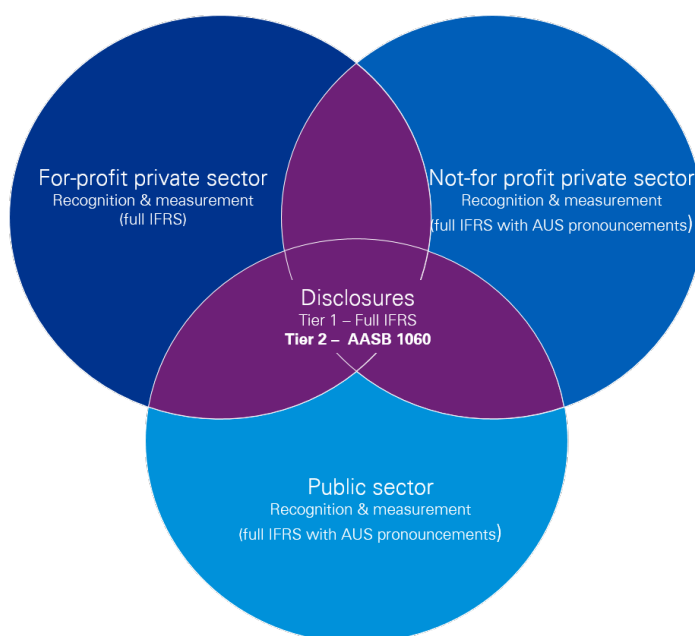
As a consequence of the deferral of the effective date, the AASB decided that for-profit private sector entities that prepare SPFS at 30 June 2021 will be required to make disclosures about their compliance with the R&M requirements in AAS, including consolidation and equity accounting, as proposed by ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*. We understand that these additional disclosures, once finalised, will not be required for financial years ending 30 June 2020.

In November 2019, the AASB finalised the proposals included in ED 293, limiting their application to NFP entities preparing SPFS that are required, through legislation, to comply with AASB 101 *Presentation of Financial Statements and AASB 1054 Australian Additional Disclosures*. These amendments were detailed in AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* and are discussed in [19RU-017 AASB 1054 – What changes for you?](#)

It is expected that the additional disclosures will be consistent with AASB 2019-4, where relevant, for for-profit entities within scope of AASB 2020-2 that continue to prepare SPFS until they are required to prepare GPFS (i.e. annual reporting periods beginning on or after 1 July 2021). Particulars of these amendments will be considered by the AASB in future meetings. Watch this space – we will advise when the AASB finalises this project.

A single SD standard to replace RDR

AASB 1060, a new single GPFS-Tier 2 SD standard, replaces the current suite of RDR disclosures. It is principally based on the disclosures included in the *IFRS for SMEs Standard*, with some adjustment for the Australian context. It will apply to all entities (both for-profit and NFP) preparing financial statements under Tier 2, both those currently reporting under the existing RDR Framework and those that will be required to stop preparing SPFS and be required to prepare GPFS and are permitted to apply the new GPFS-Tier 2 SD (as described above).



Full R&M of AAS

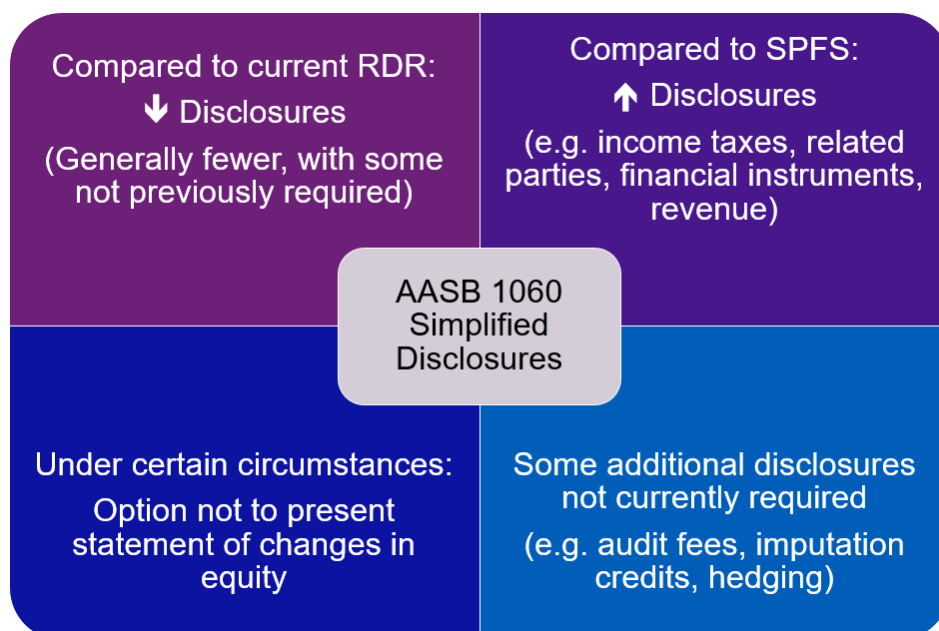
Single disclosure standard

Statement of changes in equity option

Key features

- Entities preparing GPFS-Tier 2 SD standards will comply with all R&M requirements of AAS, i.e. there is no impact on existing R&M requirements of AAS
- Entities that comply with AASB 1060 are exempt from the disclosure requirements in specified paragraphs in other AAS. GPFS-Tier 2 SD entities are also not required to comply with other AAS that deal only with presentation and disclosure.
- AASB 1060 is a single standard containing all the required disclosures for an entity preparing GPFS-Tier 2 SD. This means that those AAS only dealing with presentation and disclosure, (including AASB 7 *Financial Instruments: Disclosures*, AASB 12 *Disclosure of Interest in Other Entities*, AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 124 *Related Party Disclosures*) have been incorporated into AASB 1060 without all the additional guidance contained in those standards. AASB 1060 instructs entities to refer to these presentation and disclosure standards for guidance when needed.
- There is an option – where specific conditions are met – for an entity not to present a statement of changes in equity, which if elected would result in a presentation difference to GPFS-Tier 1.
- The Standard applies whether consolidated or separate financial statements are presented.

While AASB 1060 includes certain presentation requirements, these do not result in presentations or classifications that are different to those required for Tier 1 entities. The only exception is the option not to include a separate statement of changes in equity in certain circumstances.



Effective date and transition

AASB 1060, together with AASB 2020-2 will apply for financial reporting periods beginning on or after 1 July 2021, with early adoption permitted. Comparative disclosures are required for all disclosures, unless an entity chooses to apply the Standard early – see [Transitional relief explained](#) above.

Preparing GPFS-Tier 2

With two GPFS-Tier 2 frameworks existing concurrently, an entity preparing GPFS-Tier 2 can elect either basis. The options for **both** for-profit and NFP entities required, or electing, to prepare GPFS-Tier 2 is set out below.

	GPFS-Tier 2 RDR	GPFS Tier-2 SD
Financial year ending 30 June 2020	✓	✓
Financial year ending 30 June 2021	✓	✓
Financial year ending 30 June 2022	x	✓

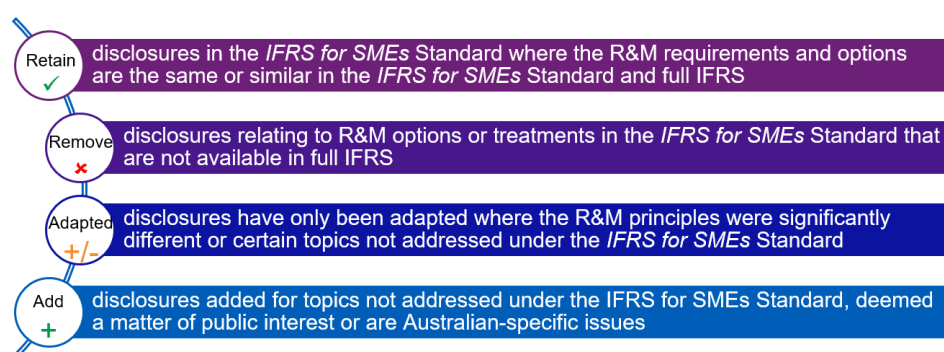
Transition from GPFS-Tier 2 RDR to GPFS-Tier 2 SD

While applying GPFS-Tier 2 RDR all R&M requirements will have been complied with – as such if an entity transitions from GPFS-Tier 2 RDR to GPFS-Tier 2 SD, neither AASB 1 nor AASB 108 have to be applied as there will not be any adjustments.

What will change are the disclosures in the first GPFS-Tier 2 SD financial statements – they will need to align to AASB 1060.

Development of AASB 1060

AASB 1060 developed with *IFRS for SMEs* Standard disclosures used as a starting point. From that basis, the general methodology for development of disclosures was:



Comparison to ED 295

AASB 1060 is broadly in line with the proposals in ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities*, with the following minor amendments:

- requirements for assets and liabilities classified as held for sale or a discontinued operation
- removing those disclosures required by *IFRS for SMEs* but not required in full IFRS
- adding in a numerical tax reconciliation (AASB 112 *Income Taxes*) and disclosure of imputation credits.

Further discussion on the background to the changes made in AASB 1060 can be found in:

- [19RU-012 Tier 2 Simplified Disclosures – ED 295](#)
- [AASB key facts on AASB 1060](#) which includes an analysis of the disclosures removed from RDR, new disclosures added as a result of *IFRS for SMEs* and for other reasons.

More resources

A broader understanding and more details of the Australian Financial Reporting Framework project is available on our dedicated webpage at www.kpmg.com/au/gpfs.

We will be releasing more resources to support your implementation of these two standards. Watch this space!

20RU-006 Farewell SPFS... Welcome SD

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

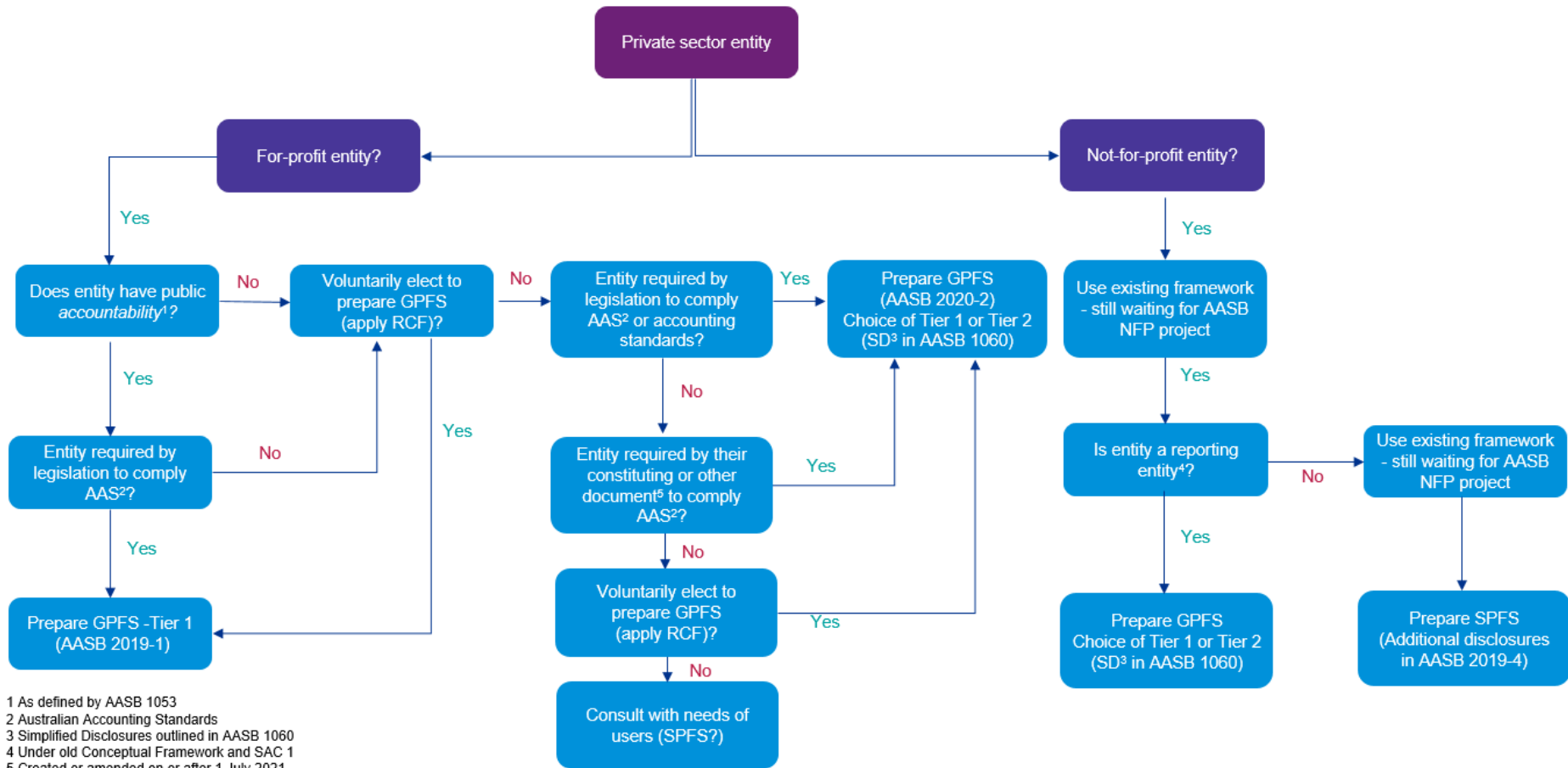
To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2020 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.

Appendix 1 – Summary of scope (included in BC93 of AASB 2020-2)

Entity	In/out of scope
Not-for-profit private sector entities including NFP entities that are companies limited by guarantee and lodging financial statements with ASIC under the <i>Corporations Act 2001</i> .	Not in scope
Not-for-profit public sector entities	Not in scope
For-profit public sector entities – not elect to voluntarily prepare GPFS.	Not in scope
For-profit private sector entities <ul style="list-style-type: none"> Companies lodging financial statements under the <i>Corporations Act 2001</i> principally: large proprietary companies (including those with relief from lodging with ASIC, e.g. grandfathered companies); unlisted public companies other than small companies limited by guarantee; small proprietary companies controlled by a foreign company; financial services licensees; and small proprietary companies with crowd-sourced funding Companies preparing financial statements under the <i>Corporations Act 2001</i> because they are directed by ASIC or shareholders to prepare financial reports. 	<p>In scope</p> <p>Depends on what directors require</p>
Entities with financial reporting obligations under Federal or State/Territory legislation (i.e. required by legislation) to: <ul style="list-style-type: none"> prepare financial statements in accordance with AAS or accounting standards (e.g. co-operatives, incorporated associations and higher education providers) prepare financial statements that give a true and fair view without reference to compliance with AAS or accounting standards (e.g. gaming venue operators, internet gaming licensees) prepare financial information in accordance with AAS or accounting standards but are not required to prepare financial statements as defined in paragraph 10 of AASB 101 (e.g. friendly societies, superannuation funds, retirement villages) prepare financial information that gives a true and fair view but not to prepare financial statements as defined in paragraph 10 of AASB 101 (e.g. incorporated associations or housing societies) prepare financial information without reference to AAS or accounting standards (e.g. for provision to a regulator) keep financial records (but not prepare financial statements) (e.g. small proprietary companies not required by the <i>Corporations Act 2001</i> to prepare financial statements). 	<p>In scope</p> <p>Not in scope – each regulator to interpret reference to ‘true and fair view’</p> <p>Not in scope</p> <p>Not in scope</p> <p>Not in scope</p> <p>Not in scope</p>
Entities required only by their constituting or another document (not by legislation) to prepare financial statements that comply with AAS (e.g. trusts, partnerships, joint arrangements and self-managed superannuation funds): <ul style="list-style-type: none"> existing entities – constituting or other document not created or amended on or after 1 July 2021 existing entities – constituting or other document amended on or after 1 July 2021 new entities – constituting or other document created on or after 1 July 2021. 	<p>Not in scope</p> <p>In scope</p> <p>In scope</p>
Entities required only by their constituting or other document (not by legislation) to prepare financial statements that comply with “accounting standards” (rather than AAS) (e.g. trusts, partnerships, joint arrangements and self-managed superannuation funds).	Not in scope
Entities that elect (i.e. voluntarily) to prepare GPFS (e.g. for-profit public sector entities or other for-profit private sector entities). Where an entity elects to prepare GPFS, the ‘new’ <i>Conceptual Framework for Financial Reporting</i> must be applied.	In scope

Appendix 2 - Australian Private Sector Financial Reporting Framework



20RU-006 Farewell SPFS... Welcome SD

© 2020 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.

Appendix 3 – Further detail for entities not subject to AASB 2020-2 amendments

The Basis for Conclusions discusses the following aspects for entities (outlined in Appendix 1) not within the scope of the proposals.

Which basis of preparation?

For these entities, the financial reporting framework applied in the SPFS would continue to be determined by the accounting policies selected by the directors or those charged with governance. For such entities there should be limited users of the financial statements. The AASB has stated that it expects that the directors and those charged with governance would be consulting with their users as to their needs.

The proposals note the following as potential basis of preparation:

- the existing five disclosure Standards (listed below) which currently apply to SPFS
- GPFS-Tier 2 framework
- [RG 85 Reporting requirements for non-reporting entities](#) guidance
- [IFRS for SMEs Standard](#)
- the [NZ Public Benefit Entity Simple Format Reporting – Accrual \(Not-for-profit\)](#)
- the [NZ Public Benefit Entity Simple Format Reporting – Cash \(Not-for-profit\)](#)
- [UK FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland](#)
- other sources.

The existing five disclosure Standards include:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1048 *Interpretations of Standards*
- AASB 1054 *Australian Additional Disclosures*.

Significance of constituting document @ 1 July 2021?

To avoid entities unnecessarily having to prepare GPFS where the preparation of GPFS is not specifically intended, AASB 2020-2 provides an exemption for entities with only a non-legislative requirement to prepare financial statements that comply with AAS (for example trusts, partnerships, joint arrangements and self-managed superannuation funds, as well as entities subject to other requirements such as lending agreements) from the requirement to prepare GPFS.

This exemption, however, only applies where the constituting document (or another document) requiring an entity to prepare financial statements that comply with AAS was created or amended **before** 1 July 2021 (the effective date of AASB 2020-2).

The exemption means that entities will not need to amend constituting documents before 1 July 2021. However, when the document is next updated (**for any purpose**) a change to the requirements to comply with AAS will need to be considered. If left unchanged the entity will no longer be able to prepare SPFS.

Why does AASB 2020-2 refer to AAS in some places and accounting standards in others?

In reviewing the legislative references, it is noted that in some instances legislation refers to 'accounting standards', rather than 'Australian Accounting Standards'.

'Accounting standards' is defined by the *Corporations Act 2001* as an instrument in force under section 334 (an AASB legislative instrument).

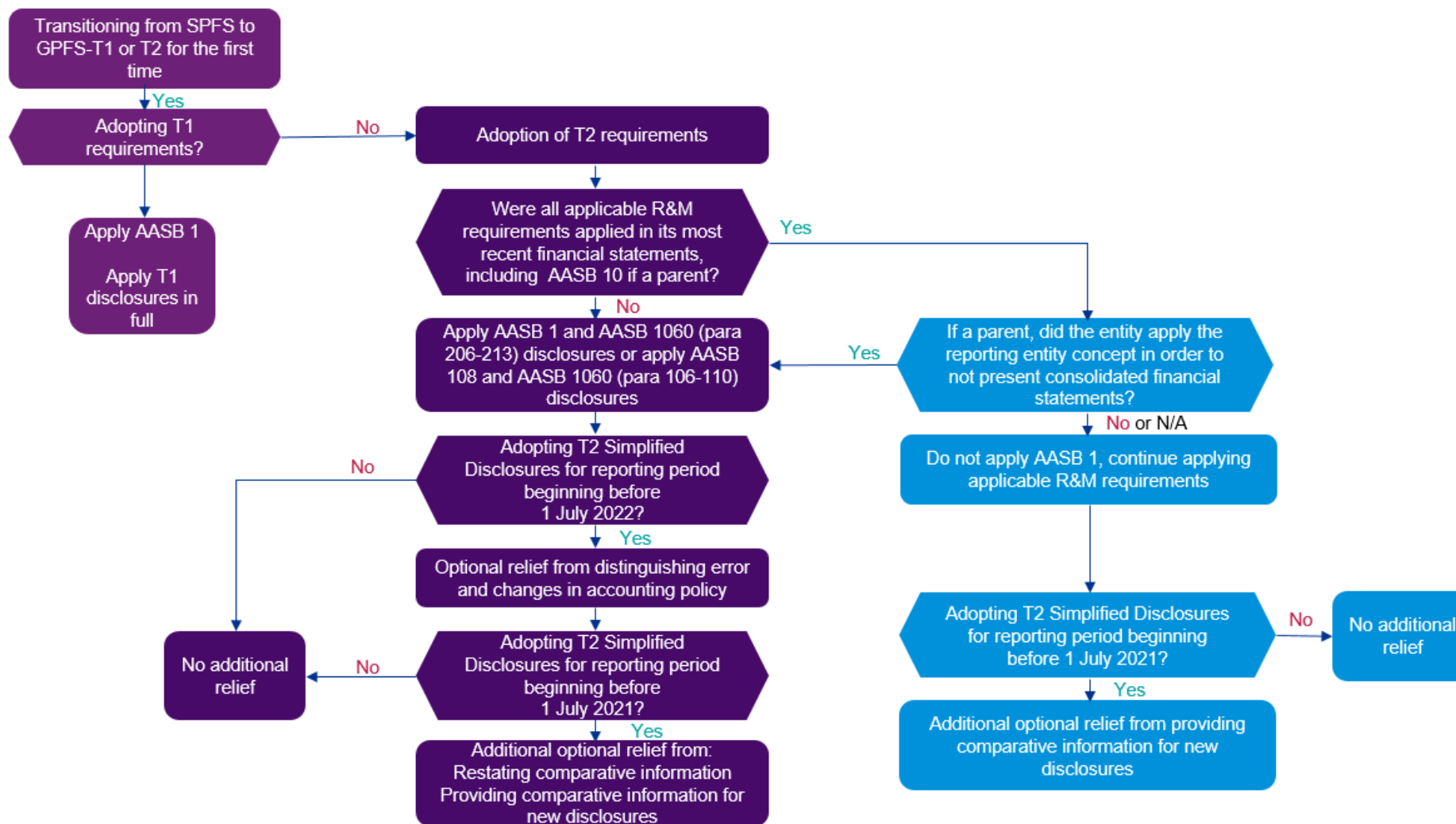
20RU-006 Farewell SPFS... Welcome SD

'Australian Accounting Standards' is defined in the updated AASB 1057 *Application of Australian Accounting Standards* as accounting standards (including interpretations) made by AASB.

The AASB has determined that the application paragraphs of AAS should include entities that are required by legislation to comply with 'accounting standards' as well as 'Australian Accounting standards'. The AASB believes that it is reasonable to expect that legislators intended compliance with accounting standards as issued by the AASB when that term is used under Australian legislation

However, on the same premise, the AASB decided that the application paragraphs would only capture references to AAS for entities with a non-legislative requirement, as in those cases it is less clear as to whether the constituting document would have intended to refer to accounting standards as issued by the AASB, when the term 'accounting standards' is used.

Appendix 4 – Moving from SPFS to GPFS for the first time



20RU-006 Farewell SPFS... Welcome SD

© 2020 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. Liability limited by a scheme approved under Professional Standards Legislation.