



# Clarity in financial reporting

## Proposed disclosures in special purpose financial statements

---

### What's changed?

### What's being proposed?

### Is this a significant change?

### What do the proposals mean for SPFS for 30 June 2019?

### What are the implications?

### Conclusion

---

### Talking points

- The Australian Accounting Standards Board (AASB) has issued an exposure draft proposing special purpose financial statements (SPFS) contain additional disclosures of:
  - The basis on which the decision to prepare SPFS was made
  - Information about whether the SPFS have been prepared on a consolidated and/or equity accounted basis and if not, why not
  - An explicit statement as to whether all recognition and measurement requirements of Australian Accounting Standards have been applied and if not, why not
- The proposals would apply to both for-profit and not-for-profit entities
- The AASB intends the disclosures to be applicable to annual periods ending on or after 30 June 2020
- The AASB is also encouraging early adoption of the new disclosures, which may include voluntarily making the disclosures in SPFS for 30 June 2019
- Comments on the AASB's proposals close on 19 August 2019.

For more information please see the following websites:

[www.deloitte.com/au/clarity](http://www.deloitte.com/au/clarity)

[www.deloitte.com/au/models](http://www.deloitte.com/au/models)

[www.iasplus.com](http://www.iasplus.com)

## What's being proposed?

### Background

In early July 2019, the Australian Accounting Standards Board (AASB) published ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements* (ED 293, available at [www.aasb.gov.au](http://www.aasb.gov.au)). The exposure draft proposes some additional disclosures in special purpose financial statements (SPFS) about consolidation, equity accounting and the extent to which the recognition and measurement requirements of Australian Accounting Standards have been applied. The AASB staff have also published a high level summary of the proposals at [www.aasb.gov.au](http://www.aasb.gov.au).

If enacted, the proposals in ED 293 would apply to both for-profit and not-for-profit entities, and are intended to apply to annual periods ending on or after 30 June 2020.

### The proposals in detail

ED 293 proposes to amend AASB 1054 *Australian Additional Disclosures* (AASB 1054) to require for-profit and not-for-profit entities applying that Standard and preparing special purpose financial statements (SPFS) to disclose:

- The basis on which the decision to prepare SPFS was made
- Where the entity has subsidiaries, investments in associates or joint ventures – whether or not the SPFS are consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it shall disclose that fact, and the reasons why (or, in respect of not-for-profit entities, if the entity has not determined whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, the entity shall instead disclose that fact)
- Disclose an explicit statement as to whether or not the accounting policies applied in the financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards and, if not, an indication of where they do not comply.

In addition, ED 293 would introduce implementation guidance and illustrative examples to AASB 1054, including a number of examples of both for-profit and not-for-profit entities.

### Why is the AASB proposing these disclosures?

As part of its broader financial reporting framework project, the AASB has commissioned research on existing SPFS. This research has indicated that SPFS available on the public record have “low levels of transparency”, specifically that it is unclear to users:

- Whether the recognition and measurement requirements of Australian Accounting Standards have been applied (as users see comparability of recognition and measurement as important)
- Whether entities preparing SPFS have consolidated subsidiaries or equity accounted investments in associates and joint ventures.

Accordingly, the AASB is proposing to amend AASB 1054 to include explicit requirements addressing these points.

The proposals are effectively an interim step in the AASB's broader project to enhance comparability, consistency and transparency in financial reporting, which may result in the removal of SPFS for entities required to prepare financial statements in accordance with Australian Accounting Standards. Further exposure drafts on these proposals are imminent.

### Is this a significant change?

The AASB's proposals are not a significant change. At most, the proposals should reinforce and expand existing best practice.

### What would the disclosures look like?



#### Common example

The following is an example disclosure that might be made in SPFS of a for-profit entity that has subsidiaries, but prepares unconsolidated financial statements in accordance with Part 2M.3 of the *Corporations Act 2001* as it is not a reporting entity:

*“[Entity name] (the Company), a for-profit entity, has prepared special purpose financial statements as, in the opinion of the directors, it is unlikely there are users of these financial statements who are not in a position to require the preparation of reports tailored to their information needs. Accordingly, these financial statements have been prepared to satisfy the directors’ reporting requirements under the Corporations Act 2001.*

*As the requirements of AASB 10 Consolidated Financial Statements are not applicable to non-reporting entities, these financial statements do not consolidate the Company’s subsidiaries. The Company’s unconsolidated special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards. The significant accounting policies adopted in these special purpose financial statements are outlined in [cross reference to accounting policy note].”*



### Examples included in ED 293

ED 293 includes the following additional examples:

1. A for-profit entity preparing consolidated SPFS, including equity accounting investments in associates and joint ventures
2. A for-profit entity preparing unconsolidated SPFS as it is eligible to apply the exemption from consolidation in AASB 10 *Consolidated Financial Statements* (i.e. where a parent prepares consolidated financial statements in accordance with International Financial Reporting Standards )
3. A parent entity preparing partially consolidated SPFS
4. A not-for-profit entity preparing consolidated SPFS, including equity accounting of investments in associates and joint ventures
5. A not-for-profit entity preparing unconsolidated SPFS where it has not considered whether it has subsidiaries, associates or joint ventures
6. A for-profit entity without subsidiaries, associates or joint ventures, preparing SPFS which comply with most, but not all, Australian Accounting Standards
7. A for-profit entity without subsidiaries, associates or joint ventures, preparing SPFS with extensive departures from Australian Accounting Standards
8. A not-for-profit entity without subsidiaries, associates or joint ventures, preparing SPFS with extensive departures from Australian Accounting Standards

### Interaction with other guidance

To some extent, the proposals in ED 293 reinforce, and expand on, existing guidance that relate to SPFS:

- The Accounting Professional & Ethics Standards Board (APESB) sets out the responsibilities of members of the professional accounting bodies in respect of SPFS. Specifically, APES 205 *Conformity with Accounting Standards* (available at [www.apesb.org.au](http://www.apesb.org.au)) requires such members to ensure most SPFS (and accompanying documents) state that they are SPFS, the purpose for which the SPFS have been prepared, and the significant accounting policies applied in the preparation and presentation of SPFS
- Australian Securities and Investments Commission (ASIC) Regulatory Guide 85 *Reporting requirements for non-reporting entities* (available at [www.asic.gov.au](http://www.asic.gov.au)) puts forward ASIC's view that recognition and measurement requirements of Australian Accounting Standards must be applied in order to determine the financial position and profit or loss of any entity preparing reports in accordance with the *Corporations Act 2001*. This would apply to any entity preparing SPFS for lodgement under Part 2M.3 of the *Corporations Act 2001*
- The Auditing and Assurance Standards Board (AUASB) has issued an AUASB Bulletin (available at [www.auasb.gov.au](http://www.auasb.gov.au)) reminding auditors of their responsibilities in respect of the financial reporting framework under Australian Auditing Standards, and how these responsibilities apply in relation to SPFS. These include requirements for auditors to evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework, and for the audit report to consider and/or report on various aspects of the financial reporting framework (including a description of the purpose for which the financial report is prepared, and management's responsibility for determining the financial reporting framework).

### What do these proposals mean for SPFS for 30 June 2019?

The AASB are expecting to implement the proposals for annual periods ending on 30 June 2020. However, consistent with discussions at its April 2019 meeting, the AASB's press release announcing the release of the exposure draft (available at [www.aasb.gov.au](http://www.aasb.gov.au)), notes that "entities are encouraged to early adopt the proposed disclosures".

Accordingly, the disclosures proposed by the AASB might be considered 'best practice' for SPFS at 30 June 2019. Many SPFS will already include similar disclosures in complying with other guidance, and aligning with the additional disclosures would not necessarily be considered onerous *per se*.

### What are the implications?

The AASB's proposals in ED 293 are a timely reminder for directors and auditors involved in SPFS to consider:

- **Revisiting classification.** The decision that an entity is not a 'reporting entity' may have been made some time ago and not have been revisited in detail for a number of years. In addition, the AASB's research and other anecdotal evidence suggests some entities should not be preparing SPFS. Now may be a timely opportunity to revisit whether or not the entity is a reporting entity
- **Documenting conclusions.** Directors and auditors should ensure their assessments are adequately documented and supported by robust argument and evidence
- **Preparing disclosures.** The AASB's proposed disclosures, whilst not overly onerous, should be prepared and reviewed by an appropriate level of management, and approved by the governing entity where relevant
- **Considering early adoption.** As the disclosures may in many cases not be overly onerous, entities should consider whether to simply adopt the proposals in their next financial statements.

## **Conclusion**

The AASB's proposals in ED 293 are designed to bring more transparency in financial reporting in the form of SPFS. Entities currently preparing SPFS should ensure they understand the proposals and are prepared for their possible implementation.

# Contacts



**Frank Betkowski**

Principal

Adelaide

fbetkowski@deloitte.com.au



**Maybelle Chia**

Director

Melbourne

machia@deloitte.com.au



**Alison White**

Partner

Sydney

aliswhite@deloitte.com.au



**Clive Mottershead**

Partner

Melbourne

cmottershead@deloitte.com.au



**Anna Crawford**

Partner

Sydney

acrawford@deloitte.com.au



**Henri Venter**

Partner

Sydney

heventer@deloitte.com.au

---

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

## **Deloitte Asia Pacific**

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities provide services in Australia, Brunei Darussalam, Cambodia, East Timor, Federated States of Micronesia, Guam, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Palau, Papua New Guinea, Singapore, Thailand, The Marshall Islands, The Northern Mariana Islands, The People's Republic of China (incl. Hong Kong SAR and Macau SAR), The Philippines and Vietnam, in each of which operations are conducted by separate and independent legal entities.

## **Deloitte Australia**

In Australia, the Deloitte Network member is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

© 2019 Deloitte Touche Tohmatsu