Nexia Australia

Demise of Special Purpose Financial Statements

September 2019

From 1 July 2020, many companies preparing financial statements in accordance with the *Corporations Act 2001*, other legislation, their constituting documents or other agreements will be prevented from preparing Special Purpose Financial Statements ("SPFS"). At the same time, the existing Tier 2 Reduced Disclosure Regime (RDR) will be replaced by new disclosure requirements. Within the following update, we explain the impacts.

Changes to the reporting entity concept

The Australian Accounting Standards Board ("AASB") is changing the current reporting entity concept with the effect of removing the ability of entities to self-assess whether they are a non-reporting entity and, hence, prepare SPFS.

For annual reporting periods commencing from 1 July 2020, the AASB is planning to require all for-profit entities that are required by legislation to prepare financial statements that comply with either 'Australian Accounting Standards' or 'accounting standards' to prepare General Purpose Financial Statements ("GPFS").

This means that, unless an ASIC exemption applies, all for-profit companies such as large proprietary companies, unlisted public companies, foreign controlled small proprietary companies and financial services licensees preparing financial statements under the *Corporations Act 2001* will have to prepare GPFS.

The requirement extends to the financial reporting obligations of other for-profit entities under Federal or State legislation and will, therefore, capture for-profit indigenous corporations; incorporated associations; co-operatives; higher education providers; and residential aged care providers.

In addition, other for-profit private sector entities that are required by their constituting document or another document to prepare financial statements that comply with 'Australian Accounting Standards', will also have to prepare GPFS, if that document was created or amended on or after 1 July 2020.

This has the potential to require entities that enter into new or amended borrowing agreements, constitutions, business acquisition agreements, or another agreement after 1 July 2020 that contains a requirement to prepare financial statements in accordance with Australian Accounting Standards to prepare GPFS.

How we see it

- Entities in scope will have to comply with full recognition and measurement requirements of Australian Accounting Standards (IFRS). The main potential effects for entities that have not applied all recognition and measurements requirements in the past are likely to be the adoption of:
  - Business Combinations (AASB 3)
  - Consolidation (AASB 10)
  - Equity accounting (AASB 128)
  - Leases (AASB 16)
  - Financial Instruments (AASB 9)
  - Revenue (AASB 15)
  - Fair Value Measurement (AASB 13)
  - Additional disclosures introduced by new Tier 2 disclosure Standard
- For-profit entities not in scope of the new requirements, for example small proprietary companies, can still prepare SPFS provided there is no other document that requires the preparation of GPFS and there are no users dependent on GPFS to meet their information needs.
- These changes will not apply to not-for-profit ("NFP") entities from 1 July 2020. However, the AASB is intending to extend these requirements to NFP entities in the future.

Composition of Tier 2 GPFS

The second part of the AASB's proposal is to replace the existing Tier 2 RDR (Reduced Disclosure Regime) GPFS standard with a new disclosure standard called 'Simplified Disclosures for Tier 2 Entities' ("SDR"). The new Tier 2 SDR will apply to any entity, including a NFP entity, preparing Tier 2 GPFS.

The proposed SDR disclosures are somewhat less than the existing RDR disclosures. Because many entities currently preparing SPFS do not comply with many disclosure requirements in accounting standards, it is likely that financial report disclosures will increase under SDR compared to their existing SPFS.

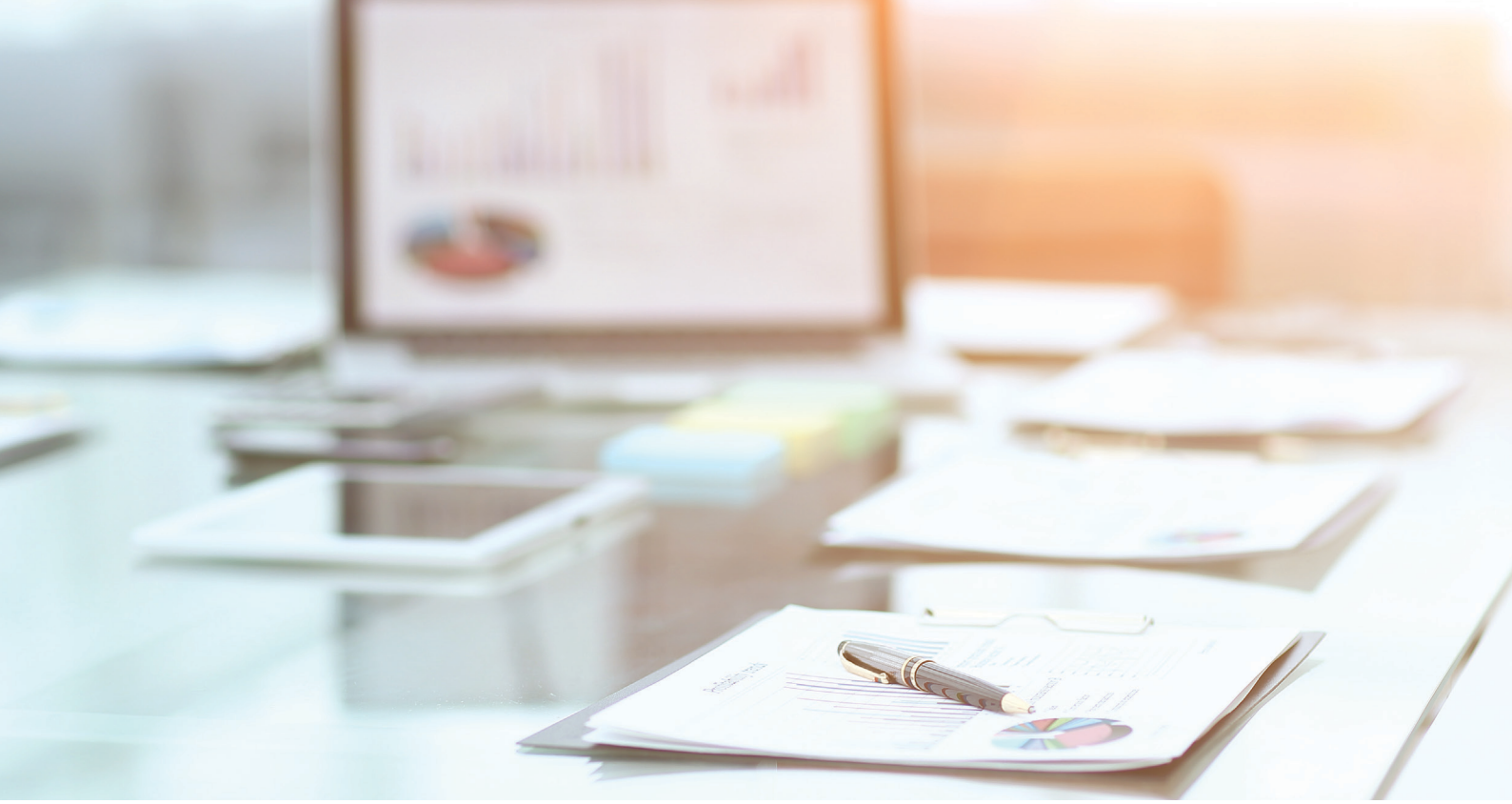
The following is a summary of the main differences between RDR and SDR:

Compared to RDR	AASB Standards
disclosures have been significantly reduced	Financial Instruments (AASB 7); Interests in Other Entities (AASB 12); and Leases (AASB 16)
some disclosures have been reduced	Business Combinations (AASB 3); Fair Value Measurement (AASB 13); Revenue from Contracts with Customers (AASB 15); Presenta-tion of Financial Statements (AASB 101); Separate Financial State-ments (AASB 127); and Impairment of Assets (AASB 136)
additional disclosures are included	First-time Adoption of Australian Accounting Standards (AASB 1); Sub-sequent Events (AASB 110); Employee Benefits (AASB 119); and Related Party Disclosures (AASB 124)

There are no significant differences between the disclosure requirements of RDR and SDR in relation to other accounting standards.

How we see it

- For those entities currently preparing Tier 2 RDR, whether a for-profit or NFP entity, there will be some reduction in disclosures.
- For those for-profit entities currently preparing SPFS, there are likely to be additional disclosures required in a number of areas, including related party disclosures and financial instruments.



Transition

The process of moving from SPFS to the new reporting framework can be illustrated as follows:

For-profit SPFS to Tier 2 GPFS

All recognition and measurement requirements (including AASB 10) previously applied?

- No accounting policy changes arise
- Apply SDR disclosures retrospectively

- Apply either AASB 1 or AASB 108 from start of the current financial year
- Comparatives measured using previous SPFS accounting policies

A company may have previously prepared SPFS that complied with all measurement and recognition requirements of accounting standards. If so, there's no change to the company's accounting policies arising on transition to GPFS. The new Tier 2 SDR disclosures are applied to both the current and the comparative reporting periods.

However, if a company didn't previously comply with all measurement and recognition requirements of accounting standards, including non-application of AASB 10 to present consolidated financial statements where the company had controlled entities, it will need to apply either AASB 1 or AASB 108 to amend its accounting policies from the start of the first reporting period under the new regime. In this scenario, there is no need to restate comparative financial information, which will be presented under the company's previous SPFS accounting policies.

Will you be affected?

From 1 July 2020, for-profit entities that are required to prepare financial statements in accordance with Australian Accounting Standards and currently preparing SPFS are likely to face measurement, recognition and disclosure changes to their financial statements.

Affected entities should develop an action plan to:

- review their existing accounting policies and identify those areas of change, including the identification of any controlled entities;
- consider whether any changes are needed to internal systems and processes to enable consolidation of controlled entities and to capture information in respect of the new disclosure requirements.

If you require assistance preparing for these changes, including impact assessments and diagnostics, please contact your local Nexia advisor.

Australia

Adelaide Office
Level 3, 153 Flinders Street Adelaide SA 5000
GPO Box 2163, Adelaide SA 5001
p +61 8 8139 1111, f +61 8 8139 1100
receptionSA@nexiaem.com.au

Brisbane Office
Level 28, 10 Eagle Street Brisbane QLD 4000
GPO Box 1189 Brisbane QLD 4001
p +61 7 3229 2022, f +61 7 3229 3277
email@nexiabrisbane.com.au

Brisbane South Office
1187 Logan Road, Holland Park QLD 4121
PO Box 63, Mount Gravatt QLD 4122
p +61 7 3343 6333, f +61 7 3849 8598
email@nexiabrisbane.com.au

Canberra Office
Level 5, 17 Moore Street, Canberra ACT 2601
GPO Box 500, Canberra ACT 2601
p +61 2 6279 5400, f +61 2 6279 5444
mail@nexiacanberra.com.au

Darwin Office
Level 2, 62 Cavenagh Street Darwin NT 0800
GPO Box 3770, Darwn NT 0801
p +61 8 8981 5585, f +61 8 8981 5586
receptionNT@nexiaem.com.au

Melbourne
Level 12, 31 Queen Street Melbourne VIC 3000
p +61 3 8613 8888, f +61 3 8613 8800
info@nexiamelbourne.com.au

Perth
Level 3, 88 William Street, Perth WA 6000
GPO Box 2570, Perth WA 6001
p +61 8 9463 2463, f +61 8 9463 2499
info@nexiaperth.com.au

Sydney
Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square, NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nexiasydney.com.au

New Zealand

Christchurch
Level 4, 123 Victoria Street, Christchurch
PO Box 4160, Christchurch
p +64 3 379 0829, f +64 3 366 7144
office@nexiachch.co.nz

www.nexia.com.au