



New financial reporting requirements for AFS licensees

ASIC has put new financial reporting requirements in place for Australian Financial Services licensees, which apply from 30 June 2022, with some transitional relief

In summary:

- ASIC has updated the financial reporting requirements for Australian Financial Services (AFS) licensees in Form FS70 *Australian financial services licensee profit and loss statement and balance sheet* (FS70). FS70 has the force of law under the *Corporations Act 2001*
- Consistent with other entities reporting under the *Corporations Act 2001*, AFS licensees reporting under Chapter 2M will be required to prepare general purpose financial statements (GPFS). All licensees reporting under Chapter 7 will also be required to prepare GPFS, but some licensees will have an additional year to be compliant. Special purpose financial statements will not otherwise be able to be prepared
- GPFS must be prepared as either Tier 1 (full disclosures) or Tier 2 (Simplified Disclosures), depending on whether or not the AFS licensee has public accountability. All licensees holding client monies and a number of specified categories of 'large or sophisticated' licensees are required to prepare Tier 1 GPFS
- All AFS licensees with controlled entities must present both consolidated and parent entity financials statements when submitting financial statements with FS70 unless they are eligible for consolidation relief
- The new requirements apply to financial years ending on or after 30 June 2022. However, as the new requirements were only been put in place immediately before the first reporting date to which they apply, some licensees are given transitional relief and can continue to prepare special purpose financial statements (under Chapter 7, see page 5) or Tier 2 GPFS (under Chapter 2M, see page 7) in the current year, with comparative relief in their subsequent period. This relief is limited to particular categories of AFS licensees.

“The ASIC requirements expand the range of entities that must prepare Tier 1 financial statements in full compliance with all Australian Accounting Standards”

Sandeep Agrawal
Lead Partner – Financial Services
Regulatory Assurance

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Overview

Background to financial reporting by AFS licensees

AFS licensees are licenced under Chapter 7 of the *Corporations Act 2001* (Chapter 7). A licensee can be a company incorporated under the *Corporations Act 2001* or may be another type of entity such as an individual or partnership.

Under Chapter 7, AFS licensees must prepare “a true and fair profit and loss statement and balance sheet” in respect of each financial year (s.989B)¹. For these purposes, a financial year is a corporate entity’s financial year (under s.323D), or otherwise for non-corporate entities, a year ending 30 June (s.989A).

Under the *Corporations Regulations 2001*, the profit and loss statement and balance sheet must be lodged with ASIC in the prescribed form (Reg 7.8.13A). FS70 is the prescribed form for these purposes and accordingly has the force of law.

Where an entity is a company, it may also have a financial reporting obligation under Chapter 2M of the *Corporations Act 2001* (Chapter 2M). The financial reporting requirements applying to AFS licensees depend on whether the entity is reporting under Chapter 7 or Chapter 2M (or both).

Changes to the financial reporting framework for for-profit entities

In March 2020, the Australian Accounting Standards Board (AASB) issued two new pronouncements that:

- Remove the ability to prepare special purpose financial statements (SPFS) for some for-profit entities – through an Amending Standard, AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (AASB 2020-2)
- Introduce a new Tier 2 ‘Simplified Disclosure’ Standard which replaces the existing ‘Reduced Disclosure Requirements’ (RDR) – AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060).

The changes are effective to reporting periods beginning on or after 1 July 2021 and eliminate the application of the ‘reporting entity’ concept by impacted entities. Accordingly, entities reporting under the *Corporations Act 2001* are required to prepare GPFS, including AFS licensees.

There are two tiers of GPFS under Australian Accounting Standards:

- **Tier 1 – Australian Accounting Standards.** These comprise all the recognition, measurement, presentation and disclosure requirements of IFRS[®] Accounting Standards and includes requirements specific to Australian entities
- **Tier 2 – Australian Accounting Standards – Simplified Disclosures.** This comprises the recognition and measurement requirements of Tier 1, but with substantially fewer required disclosures.

For-profit private sector entities that have **public accountability** must apply Tier 1 and make an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRS) in the notes to the financial statements in accordance with the requirements of AASB 101 *Presentation of Financial Statements*. Other for-profit private sector entities can choose to prepare Tier 1 or Tier 2, unless another regulatory requirement or the reporting mandate requires the preparation of Tier 1 GPFS.



Understanding the revised reporting framework for for-profit entities in more detail

To understand the nature of the changes implemented by the AASB, see our [Clarity publication](#), *Removal of special purpose financial statements* and [Clarity publication](#) *Simplified Disclosures – Transition options and opportunities* (both available at www.deloitte.com/au/clarity).

¹ Under [ASIC Corporations \(Foreign Licensees and ADIs\) Instrument 2016/186](#), a foreign company that holds an AFS licence is not required to report under s.989B (among others). Instead, foreign licensees are required to lodge with ASIC at least once in every calendar year and at intervals of not more than 15 months, a certified copy of its balance sheet, cash flow statement and profit and loss statement in such form and containing such particulars as are required by the law applying to the foreign licensee in its place of origin. Where the entity is a registered foreign company and reports to ASIC under s.601CK of the *Corporations Act 2001*, compliance with that requirement will also result in meeting this condition under the Corporations Instrument. Accordingly, such entities are not subject to the financial reporting requirements of FS70 and are not impacted by the financial reporting changes.

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Changes made to FS70 by ASIC

In early June 2022, ASIC released media release [22-128MR](#) *ASIC announces financial reporting changes for AFS licensees*, which set out the revised financial reporting framework to be applied in light of the changes in the Australian financial reporting framework for for-profit entities. The media release sets out the changes ASIC intended to make to FS70, which in summary:

- Requires all AFS licensees to prepare GPFS
- Puts forward ASIC's view that all AFS licensees holding client monies have public accountability and so must prepare Tier 1 GPFS (this is stated in the ASIC press release but not explicitly stated in FS70 as this operates through the existing definition of 'public accountability' in Australian Accounting Standards)
- Requires a number of specified categories of 'large or sophisticated' licensees to prepare Tier 1 GPFS
- Confirms that AFS licensees are required to present a statement of cash flows in all cases (which is required in any case in GPFS prepared under Australian Accounting Standards)
- Require all AFS licensees with controlled entities to present both consolidated and parent entity information when submitting financial statements in accordance with FS70 (i.e. "four columns"). This was subsequently clarified to exclude entities that are eligible for consolidation relief under Australian Accounting Standards (see *Are consolidated financial statements required for all AFS licensees that have subsidiaries?* In the [Appendix](#) for more information)
- To provide transitional relief to some entities for their first financial year reporting under the new requirements, and in respect of comparative information in their subsequent financial year (discussed below).

[FS70](#) was reissued on 1 July 2022 and was subsequently revised on 19 September 2022 to clarify that intermediate parent entities are not required to prepare consolidated financial statements if they are eligible for consolidation relief under AASB 10 *Consolidated Financial Statements*². The revised requirements apply to financial years commencing on or after 1 July 2021 (i.e. to coincide with the application date of AASB 2020-2 and AASB 1060).

ASIC also published [Financial reporting and audit: Frequently asked questions \(FAQs\)](#) on its website providing responses to a number of frequently asked questions about the changes (among other topics).

We have also included additional frequently asked questions (FAQs) about the changes in the [Appendix](#).

² The previous version of Form FS70 (issued on 1 July 2022) effectively required any licensee that had "control of an investee" within the meaning of AASB 10 to present both parent entity and consolidated financial statements. ASIC [subsequently clarified](#) (through a FAQ document) that Form FS70 was "not intended to override the exemption" in AASB 10 where it would otherwise apply. The updates to Form FS70 in September 2022 completed the process of implementing this intention and removes any doubt in interpretation.

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Application of the public accountability test by AFS licensees

Requirements under Australian Accounting Standards

AASB 1053 *Application of Tiers of Australian Accounting Standards* defines an entity as having public accountability if:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (AASB 1053, Appendix A) – this includes banks, credit unions, insurance companies, securities brokers and dealers, mutual funds and investment banks (AASB 1053.B4).

The following for-profit entities are deemed to have public accountability under Australian Accounting Standards (AASB 1053.B2):

- Disclosing entities (as defined under the *Corporations Act 2001*), regardless of whether or not their debt or equity instruments are traded in a public market or are in the process of doing so
- Co-operatives that issue debentures
- Registered managed investment schemes
- Superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) (other than certain small APRA Funds)
- Authorised deposit-taking institutions.

The requirements to transition from SPFS to Simplified Disclosures are outlined in AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053) (specifically paragraphs 18A-18D).

Requirements under FS70

Holding of client monies

ASIC media release 22-182MR states that AFS licensees holding client monies (within the meaning of the *Corporations Act 2001*, *Corporations Regulations 2001* and associated ASIC instruments) automatically have public accountability (within the meaning of that term in AASB 1053). Therefore, all such licensees are required to prepare Tier 1 GPFS.

'Large or sophisticated' licensees

The application of the public accountability requirements under AASB 1053 may be unclear in the case of some AFS licensees. In order to avoid doubt as to whether particular licensees have public accountability, ASIC amended FS70 to require the preparation of Tier 1 financial statements by a number of categories of what are termed 'large or sophisticated licensees with greater market impact' in the media release. This has the effect of 'deeming' those categories of licensees to have public accountability. This means any licensee in the prescribed categories must prepare Tier 1 GPFS even though it may not be considered to have public accountability under AASB 1053, although this distinction is important in applying the transitional provisions provided in FS70 for financial years commencing before 23 June 2023 (see page 8).

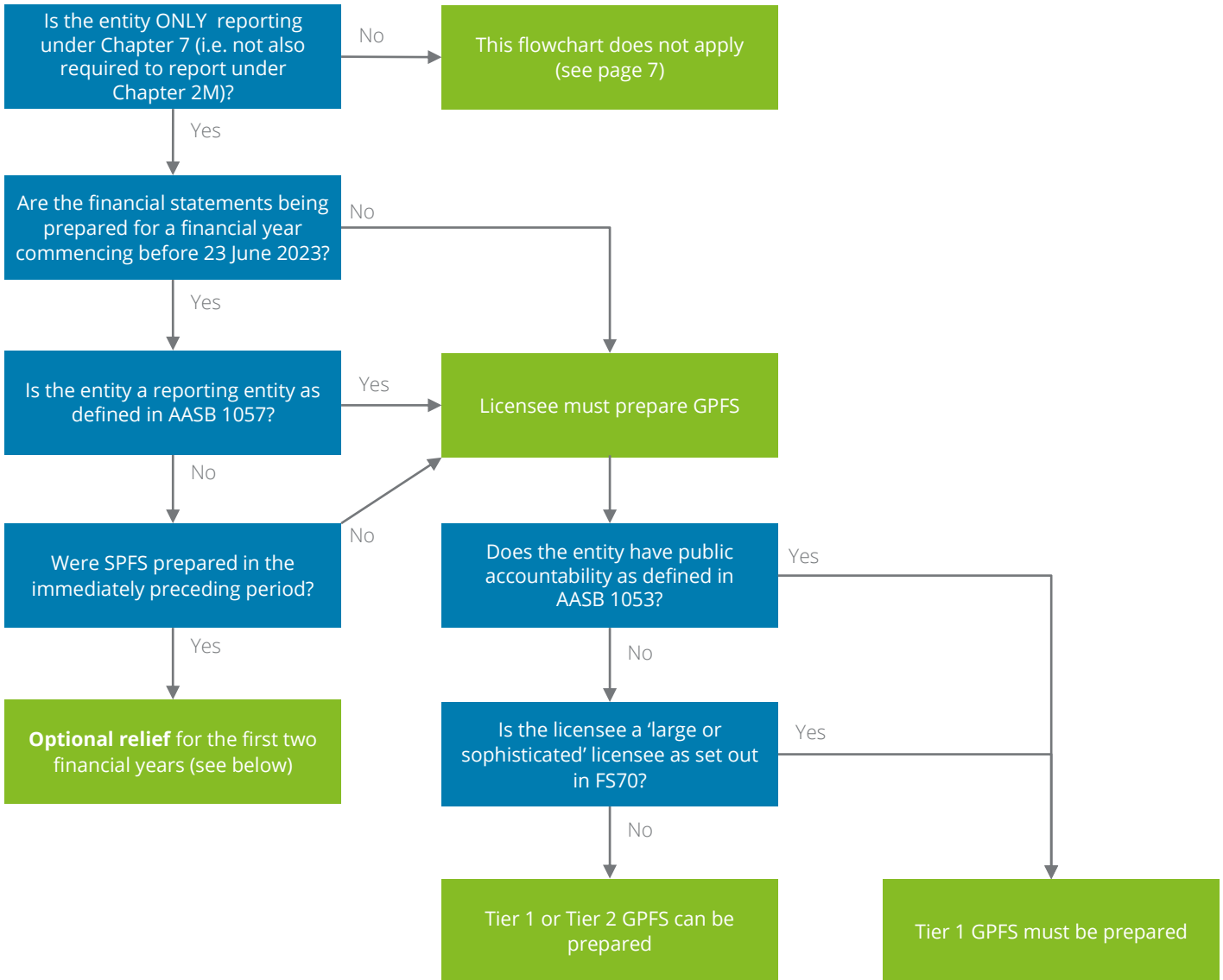
Accordingly, under FS70, Tier 1 financial statements must be prepared by AFS licensees that are (FS70, clause 11(a)(ii)):

- Regulated by APRA
- Participants in a licensed market (i.e. a market operating under an Australian market licence granted under s.795B of the *Corporations Act 2001*³)
- Participants in a clearing and settlement facility
- Retail over-the-counter derivative issuers (as defined in regulation 61 of the [ASIC Supervisory Cost Recovery Regulations 2017](#))
- Wholesale electricity dealers (as defined in regulation 62 of the *ASIC Supervisory Cost Recovery Regulations 2017*)
- Corporate advisors that deal in financial products (as defined in regulation 63 of the *ASIC Supervisory Cost Recovery Regulations 2017*)
- Over-the-counter derivative traders (as defined in regulation 66 of the *ASIC Supervisory Cost Recovery Regulations 2017*)
- Wholesale trustees (as defined in regulation 37 of the *ASIC Supervisory Cost Recovery Regulations 2017*)
- Responsible entities of registered schemes
- Corporate directors of a corporate collective investment vehicle (CCIV)
- Providers of a custodial or depository service
- Operators of an investor directed portfolio service (IDPS) (as defined in ASIC Class Order [CO 13/763]).

³ "Licensed market" is defined in s.761A. The ASIC website has listing of licensed [domestic](#) and [foreign](#) financial markets operating in Australia.

Preparation of financial statements under Chapter 7

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Optional relief under FS70 for financial years commencing before 23 June 2023

FS70 provides transitional relief to licensees reporting under Chapter 7 that meet *all* of the following requirements (FS70, clause 11B):

- The licensee is not required to prepare financial statements under Chapter 2M
- The licensee is not a reporting entity within the meaning of the first paragraph of the definition of “reporting entity” in AASB 1057 *Application of Accounting Standards* (note this definition is applied even though it would not otherwise apply the entity due to the amendments made by AASB 2020-2)
- The licensee prepared SPFS in the immediately prior financial year.

In these circumstances, the licensee can choose to prepare financial statements that only disclose (FS70, clause 11B):

- The profit or loss account and balance sheet
- Information that would have been required by Australian Accounting Standards for SPFS for years commencing 1 July 2020 (i.e. before AASB 2020-2 is applicable and removes the ability of many for-profit entities to prepare SPFS)
- Information necessary to give a true and fair view.

In effect, eligible entities reporting only under Chapter 7 can:

- Continue to prepare SPFS in respect of a financial year commencing 1 July 2021 to 23 June 2022
- Not present comparative information in their GPFS for financial years commencing before 23 June 2023 to the extent that comparative information was not presented in their immediately previous period (which may be the first year of compliance).

The relief is only available in respect of financial years commencing before 23 June 2023 (and only in respect of comparative information in the second financial year after the new requirements were introduced). After this period, the entity will be required to prepare GPFS with full comparative information.

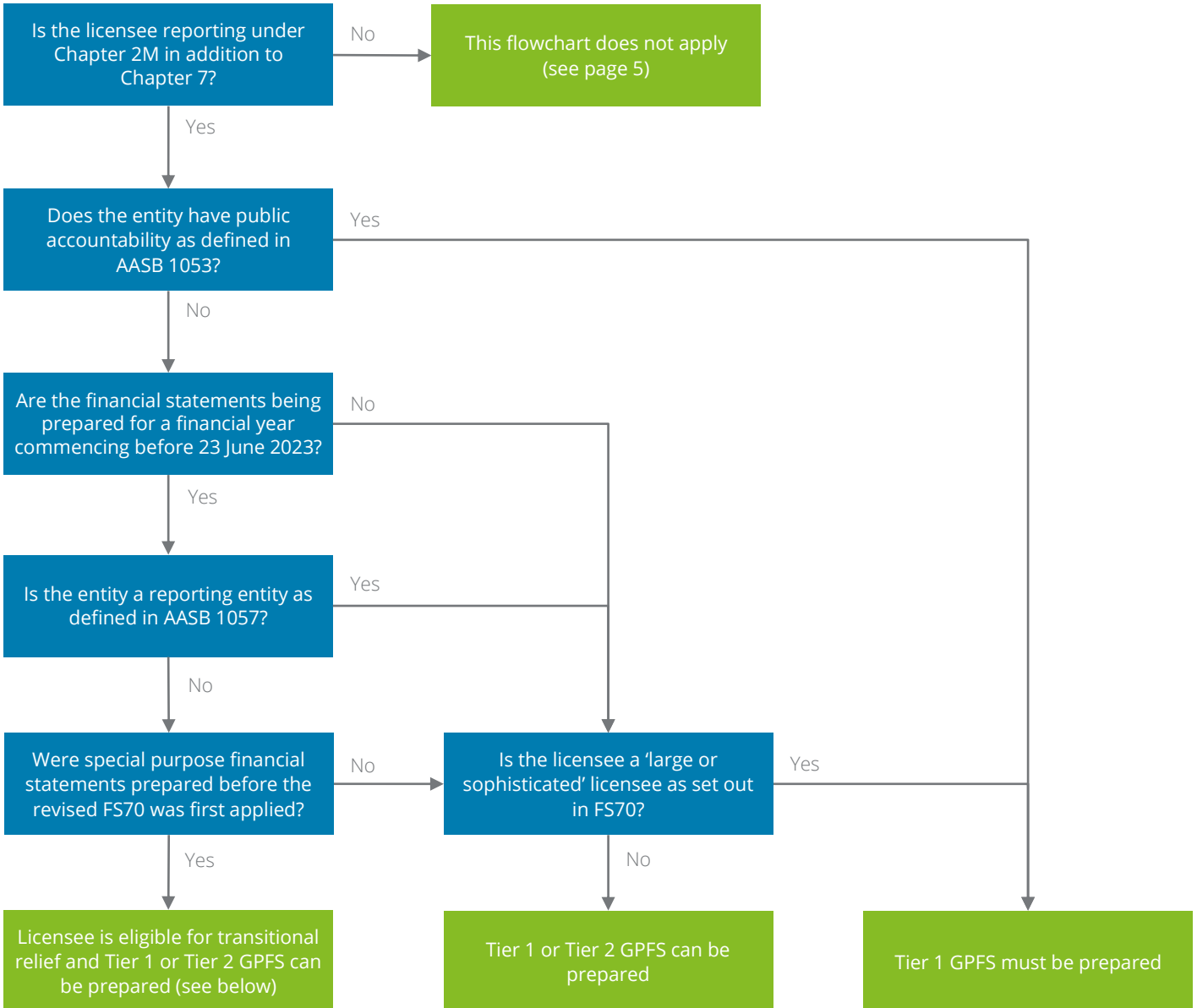
Relief for licensees that are a natural person

Financial statements of a licensee that is a natural person may exclude revenues and expenses that do not relate to any business of the licensee or all revenue and expenses that do not relate to a financial services business of the licensee, provided the exclusion is noted in the financial statements (FS70, clause 11A).

Some licensees reporting only under Chapter 7 are eligible to prepare SPFS for one additional year, with comparative relief in the subsequent year

Preparation of financial statements by licensees required to report under Chapter 2M

Summary



GPFS must be prepared in all cases

All AFS licensees preparing financial statements under Chapter 2M must prepare general purpose financial statements for financial years commencing on or after 1 July 2021, regardless of whether or not any transitional relief is available. This is because the amendments made by the AASB to remove the reporting entity concept and require GPFS are effective for all entities reporting under Chapter 2M.

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Optional relief under FS70 for financial years commencing before 23 June 2023

FS70 provides transitional relief to licensees that ASIC has effectively 'deemed' to have public accountability where they are reporting under Chapter 2M and meet *all* of the following requirements (FS70, clause 11B):

- The licensee is not a reporting entity within the meaning of the first paragraph of the definition of "reporting entity" in AASB 1057 *Application of Accounting Standards* (note this definition is applied even though it would not otherwise apply to the entity due to the amendments made by AASB 2020-2)
- The licensee prepared SPFS in the immediately prior financial year
- The entity does not have public accountability as defined in AASB 1053 (i.e. regardless of whether it is a 'large or sophisticated' licensee as set out in FS70).

In these circumstances, the licensee can choose to prepare Tier 1 or Tier 2 GPFS under the transitional provisions even though the entity would otherwise be required to prepare Tier 1 GPFS (FS70, clause 11B). In effect, this transitional concession permits certain entities that are in a 'large or sophisticated' category of licensees and that do not have public accountability under Australian Accounting Standards to:

- Prepare Tier 2 GPFS in respect of a financial year commencing 1 July 2021 to 23 June 2022
- Not present comparative information in their Tier 1 GPFS for financial years commencing before 23 June 2023 to the extent that comparative information was not presented in their immediately previous period (which may be the first year of compliance).

The relief is only available in respect of financial years commencing before 23 June 2023 (and only in respect of comparative information in the second financial year after the new requirements were introduced). After this period, the licensee will be required to prepare Tier 1 GPFS if it has public accountability or is in a large or sophisticated licensee category.

The transitional relief is different for entities reporting under Chapter 2M compared to only Chapter 7 and GPFS must always be prepared

Conclusion

The changes to financial reporting implemented through recent changes to Australian Accounting Standards and amendments to FS70 are significant. SPFS will no longer be permitted. All AFS licensees will be required to prepare GPFS, with many required to prepare Tier 1 GPFS in full compliance with the recognition, measurement, presentation and disclosure of all Australian Accounting Standards. Understanding the transitional relief available is crucial to understanding the impacts in the first two financial years for which the new requirements apply.

Appendix – Frequently asked questions (FAQs)

Are consolidated financial statements required for all AFS licensees that have subsidiaries?

No. As a result of amendments made to FS70 on 19 September 2022, ASIC's position as outlined in FS70 is that if the licensee had 'control of an investee' as defined in Accounting Standard AASB 10 *Consolidated Financial Statements* (AASB 10) at any time during the financial year, it must include both parent entity and consolidated information in its financial statements except that an intermediate parent entity need not present consolidated financial statements where an exemption in Australian Accounting Standards applies.

Under paragraph 4(a) of AASB 10 *Consolidated Financial Statements*, a parent entity need not present consolidated financial statements if it meets the following criteria:

- It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements
- Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets)
- It did not file, nor it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market
- Its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with AASB 10.

However, a for-profit private sector entity that is an ultimate Australian parent is required to present consolidated financial statements when the ultimate Australian parent is required by legislation to prepare financial statements that comply with Australian Accounting Standards or accounting standards (except where the entity is an investment entity) (paragraph Aus4.2 of AASB 10).

Accordingly, AFS licensees reporting under the *Corporations Act 2001* that are:

- **Ultimate Australian parent entities** are required to prepare consolidated financial statements together with the financial statements of the parent entity ('four columns')
- **Intermediate parent entities** are NOT required to prepare consolidated financial statements where they meet the requirements for the consolidation exemption in AASB 10.

Where consolidated financial statements are required, must the parent entity and consolidated financial statements be presented in the same financial report (i.e. four columns)?

Yes. Licensees should prepare four column financial statements, including the accompanying note disclosures. Including a parent entity note within the consolidated financial statements would not meet the requirements of FS70.

Do the changes impact foreign AFS licensees that are exempt from preparing financial statements under ASIC Corporations (Foreign Licensees and ADIs) Instrument 2016/18?

No. The exemption for foreign licensees under *ASIC Corporations (Foreign Licensees and ADIs) Instrument 2016/18* is still operative and is not affected by the changes to Australian Accounting Standards or the amendments to FS70. There are currently no changes to that exemption.

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Where an AFS licensee applies the transitional relief under either Chapter 7 or Chapter 2M (where eligible), what impacts does the relief have on the financial statements?

It varies. The table below outlines some considerations in various circumstances:

Transitional provision adopted	Implications
<p>Preparation of SPFS by entities preparing financial statements under Chapter 7</p> <p>This relief is only available for eligible licensees (i.e. not a reporting entity, previously prepared SPFS, and not preparing financial statements under Chapter 2M) preparing financial statements for financial years beginning 1 July 2021 to 23 June 2022</p>	<ul style="list-style-type: none">• The financial statements cannot state full compliance with either Australian Accounting Standards or Australian Accounting Standards – Simplified Disclosures• The financial statements should be identified as special purpose financial statements and should refer to compliance with the reporting requirements in FS70• The basis of preparation note should explicitly state⁴:<ul style="list-style-type: none">◦ That full recognition and measurement requirements have been applied◦ Whether disclosures for the current year are on a Tier 1, Tier 2 or special purpose financial reporting basis◦ That comparative disclosures are on a special purpose financial reporting basis◦ For special purpose financial reporting, the Australian Accounting Standards for which disclosure requirements have not been applied• The disclosures should also meet the requirements of APES 205 <i>Conformity with Accounting Standards</i>• The other requirements of FS70 should be met (including referring to compliance with the true and fair requirement under s.989B of the <i>Corporations Act 2001</i>)
<p>Preparation of Tier 2 GPFS by entities preparing financial statements under Chapter 2M</p> <p>This relief is only available for certain 'large or sophisticated' licensees (i.e. not a reporting entity, previously prepared SPFS and does not have public accountability) preparing financial statements for financial years beginning 1 July 2021 to 23 June 2022</p>	<ul style="list-style-type: none">• The financial statements should state compliance with Australian Accounting Standards – Simplified Disclosures but cannot state compliance with Australian Accounting Standards or IFRS• The other requirements of FS70 should be met (including referring to compliance with the true and fair requirement under s.989B of the <i>Corporations Act 2001</i>)
<p>Relief from providing certain comparative information in the initial or subsequent period</p> <p>This relief is only available for financial years beginning before 23 June 2023 (where the above relief has been applied in the previous financial year)</p>	<ul style="list-style-type: none">• For entities preparing financial statements under Chapter 7 only, the basis of preparation note should explicitly state⁴:<ul style="list-style-type: none">◦ That full recognition and measurement requirements have been applied◦ Whether disclosures for the current year are on a Tier 1 or Tier 2 financial reporting basis◦ That comparative disclosures are on a special purpose financial reporting basis• Tier 1 GPFS may not be able to state compliance with Australian Accounting Standards or IFRS⁵• Tier 2 GPFS may not be able to state compliance with Australian Accounting Standards – Simplified Disclosures⁵• The other requirements of FS70 should be met (including referring to compliance with the true and fair requirement under s.989B of the <i>Corporations Act 2001</i>)

⁴ The requirement for this information is noted in ASIC's [Financial reporting and audit: Frequently asked questions \(FAQs\)](#) page.

⁵ For the avoidance of doubt, if licensees wish to state that their financial statements are in compliance with the relevant framework, they may wish to provide full comparatives under the relevant framework.

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If the entity chose to prepare GPFS for the immediately preceding financial year beginning before 1 July 2021, is the entity eligible for the transitional relief?

No. As one of the conditions of the relief is that the entity prepared SPFS in the immediately preceding period, entities that have prepared GPFS in the immediately preceding financial year beginning before 1 July 2021 are not eligible for the transitional relief.

This applies even though the entity may have:

- Prepared Tier 2 GPFS in the immediately preceding financial year on the basis the entity was a reporting entity but did not have public accountability
- Voluntarily prepared GPFS even though the entity was not a reporting entity and did not have public accountability.

Therefore, if the licensee falls into a 'large or sophisticated' category effectively 'deemed' to have public accountability by ASIC, such entities would be required to prepare Tier 1 financial statements to meet the requirements of FS70.

If the entity becomes an AFS licensee in a financial year beginning on or after 1 July 2021, is the entity eligible for the transitional relief?

It depends. As one of the conditions of the relief is that the entity prepared SPFS in the immediately preceding period, entities that have prepared SPFS in the immediately preceding financial year beginning before 1 July 2021 and then subsequently become a licensee would be eligible for the transitional relief (so long as they do not have public accountability under AASB 1053 and are not a reporting entity under AASB 1057). However, newly incorporated entities, or other entities that did not prepare SPFS in the immediately preceding financial year beginning before 1 July 2021 would not be eligible for transitional relief.

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