

## Financial Reporting Changes for AFS Licensees

July 2022

### New financial reporting requirements apply to Australian Financial Services (AFS) licensees for 30 June 2022.

From financial years commencing 1 July 2021, for-profit companies, registered schemes and disclosing entities that prepare annual financial reports under Chapter 2M of the *Corporations Act 2001* (the Act), and which were not reporting entities, can no longer prepare special purpose financial statements (SPFS). This change will also affect the financial reporting by AFS licensees under Chapter 7 of the Act, although ASIC has provided transitional relief to some entities.

### Licensees reporting under Chapter 2M in addition to Chapter 7

For financial years beginning on or after 1 July 2021, AFS licensees that are also required to prepare annual financial statements in accordance with Chapter 2M of the Act (such as disclosing entities, large proprietary companies, public companies, and registered schemes), must prepare general purpose financial statements (GPFS).

Accounting standards allow entities that do not have 'public accountability' to apply the Tier 2 Simplified Disclosure Standard, AASB 1060 (SDS). Entities that have public accountability must apply the full requirements of accounting standards (that is, Tier 1 GPFS).



### What is public accountability?

An entity has public accountability where:

- a) 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
- b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (this would generally include AFS licensees that hold client monies). Licensees will need to assess whether their licencing conditions and operations meet this criteria.

To avoid doubt as to whether some AFS licensees have public accountability ASIC has determined that the following licensees will be required to prepare full Tier 1 GPFS for financial years commencing on or after 1 July 2021:

- those regulated by the Australian Prudential Regulatory Authority;
- participants in a licensed market;
- participants in a clearing and settlement facility;
- retail over-the-counter derivative issuers;
- wholesale electricity dealers;
- corporate advisors that deal in financial products;
- over-the-counter derivative traders;
- wholesale trustees;
- responsible entities of a registered scheme;
- corporate directors of a corporate collective investment vehicle (CCIV);
- providers of a custodial or depository service; and
- operators of an investor directed portfolio service (IDPS).

No comparative disclosure relief or other transition relief exists for these AFS licensees that prepared SPFS before 1 July 2021 and are required to prepare GPFS for 30 June 2022.

## Licensees reporting only under Chapter 7

The *Corporations Regulations 2001* sets out the financial information required to be prepared and lodged with ASIC under Chapter 7 of the Act.

Some AFS licensees are required to prepare financial information under Chapter 7 but not under Chapter 2M of the Act, such as small proprietary companies or trusts.

An AFS licensee reporting only under Chapter 7 and which meets the definition of a reporting entity for financial reporting purposes is required to prepare GPFS at 30 June 2022. Whether those GPFS are presented as full Tier 1 or Tier 2 SDS financial statements depends on whether the licensee has public accountability, as described above.

However, where the AFS licensee does not meet the definition of a reporting entity in accounting standards and prepared SPFS in the preceding financial year it can continue to prepare SPFS until the 30 June 2023 financial year.

This results in the following choice for an AFS licensee reporting only under Chapter 7 of the Act and which is not a reporting entity:

- i) Retain SPFS for 30 June 2022

However, the licensee will be required to prepare GPFS for financial years commencing on or after 23 June 2022. Comparative information will not be required for any new disclosures made in its 2023 GPFS that were not previously required in its 2022 SPFS; or

- ii) Prepare GPFS for 30 June 2022

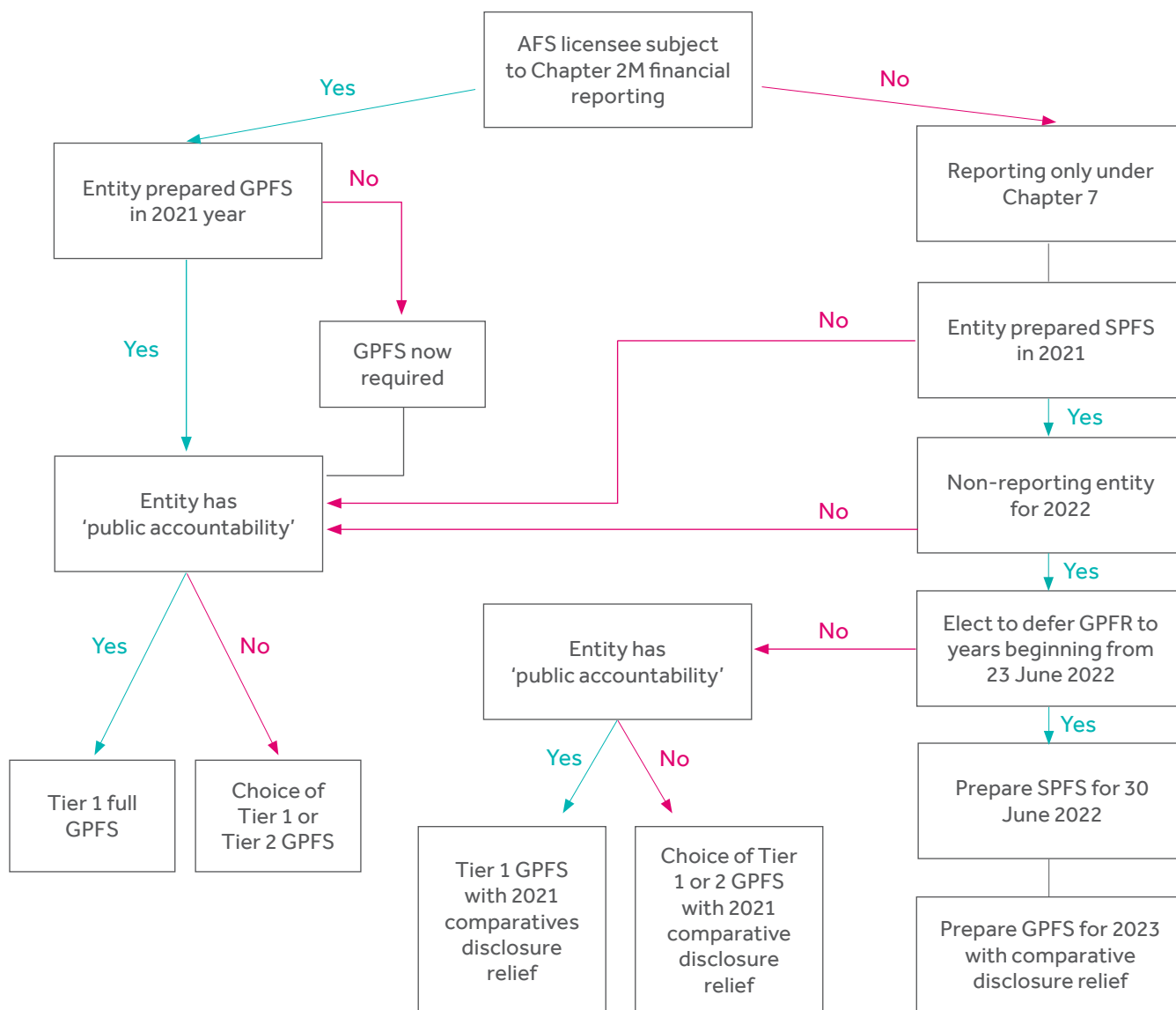
The licensee can choose to prepare GPFS for 30 June 2022 (full Tier 1 or Tier 2 SDS, depending on whether the licensee has public accountability). In this case, comparative information is not required for any new disclosures made in its 2022 GPFS that were not previously required in its 2021 SPFS.





The financial reporting requirements can be illustrated as follows:

### AFSL financial reporting requirements – 30 June 2022



The above changes are effected through [ASIC Form FS 70](#). More information is available in [ASIC's media release 22-128MR](#).

#### Next Steps

AFS licensees should identify whether they are required to prepare an annual financial report under Chapter 2M of the Act in addition to their financial reporting obligations under Chapter 7.

Those licensees reporting under Chapter 2M of the Act will need to prepare either Tier 1 or Tier 2 SDS GPFS, depending upon whether they have public accountability, at 30 June 2022. Other licensees reporting only under Chapter 7 that are non-reporting entities and previously prepared SPFS will need to decide whether to apply ASIC's relief for their 30 June 2022 financial reporting.

If you have any questions, or would like any information on what these changes mean for you, please contact your Nexia Advisor.

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