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Financial Reporting Considerations for Securitisation Special Purpose Vehicles (SPVs)

As we approach the financial reporting season for June 30, 2020, the ASF's Accounting and Tax Committee determined it would be prudent to raise a number of considerations to members' attention when preparing financial reports for securitisation SPVs. The points raised herein have been considered by the Committee in light of the upcoming revision of the Conceptual Framework including the removal of special purpose financial reports as a reporting framework option and recent publications from the Australian Accounting Standards Board (AASB).

Background

In the Committee's experience, the majority of securitisation SPVs that prepare financial statements do so in order to meet the requirements of their underlying transaction documents which usually specify a financial reporting obligation. The financial statements prepared are, in our experience, usually special purpose financial statements.

From 1 July 2021, AASB 2020-2 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector* will apply which will remove the ability of many entities, including some securitisation SPVs to prepare special purpose financial statements. Additionally, the AASB has recently released Exposure Draft 302: *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* which the Committee believes contains sensible and practical recommendations to reduce the risk of misinterpretation of the basis of preparation of the special purpose financial statement in the current reporting season. The key recommendations of this exposure draft are included in Appendix B to this guidance.

The ASF's Accounting and Tax Committee will shortly be providing additional guidance on the adoption of the new standard, and its potential impacts on members. However, in light of industry discussions in the advent of adoption, the Committee determined that there was a range of current practices in industry financial reporting that would benefit from the attached guidance. In particular, given the COVID-19 economic environment and ongoing uncertainties

associated with the pandemic, the Committee determined that it would be useful to the Industry to provide the attached guidance reflecting conversations to date with the AASB.

This guidance note covers:

- Recommended wording for special purpose SPVs regarding the application of Australian Accounting Standards to enable clarity of understanding of the extent of adoption, particularly for any users who may not be familiar with Australia's special purpose reporting framework
- Recommended points for consideration regarding disclosures for securitisation SPVs in light of COVID-19

Application of Australian Accounting Standards in Special Purpose Financial Statements

As mentioned above, the AASB has recently released an exposure draft (ED) to provide further guidance to those entities continuing to produce special purpose financial statements. It is currently open for consultation until 11 September 2020 so is not mandatory.

Exposure Draft 302: *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* was released in June 2020. In this ED, the AASB clearly states that its recent research paper¹ determined that disclosures regarding the basis upon which the special purpose financial statements have been prepared, including the extent of compliance or otherwise with recognition and measurement requirements in Australian Accounting Standards, were not sufficient. Whilst still under consultation the Committee believes the ED contains a number of good suggestions which members should consider adopting.

Special purpose financial statements are generally expected to fully comply with the recognition and measurement requirements of all Australian Accounting Standards, with limited disclosure obligations. Most entities adopt the minimum disclosure requirements included in ASIC Regulatory Guidance 85, though technically this only applies to those entities required to prepare financial statements in accordance with Part 2M.3 of the Corporations Act 2001.

AASB 101: *Presentation of Financial Statements*

AASB 107: *Statement of Cash Flows*

AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors*

AASB 1048: *Interpretation of Standards*

AASB 1054: *Australian Additional Disclosures*

¹ AASB Research Report No. 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements (August 2019)

Disclosure that states that the financial statements are in compliance with Australian Accounting Standards is not appropriate unless all aspects of Australian Accounting Standards, including the disclosure requirements are presented, i.e. general purpose financial statements.

Securitisation SPVs are not usually captured under the Corporations Act, therefore technically, most securitisation SPVs have no prescribed minimum disclosure requirements, though in practice we see most industry participants stating in their financial statements that they are applying the above minimum disclosure requirements.

The AASB has raised concerns that without a clear explanation of what compliance with Australian Accounting Standards means there is a risk of users being misled, particularly where special purpose financial statements are prepared and claim compliance with Australian Accounting Standards but are only partially applying the disclosure requirements.

For this reason, we recommend that any special purpose financial statements do not state that the financial statements are prepared in accordance with Australian Accounting Standards, and instead specify that the basis of preparation is the recognition and measurement requirements of Australian Accounting Standards, and specify the standards for which disclosures are also complied with. Additionally for clarity and to remove any risk of misunderstanding for users of the financial statements who may not be familiar with Australia's special purpose reporting framework, we recommend additionally including a statement to the effect that 'as a result, these financial statements are not compliant with the disclosure requirements of Australian Accounting Standards.' See Appendix A for an indicative recommended wording for inclusion in basis of preparation section and statement of compliance of securitisation SPV financial reports.

Diversion from application of recognition and measurement requirements of Australian Accounting Standards

The Committee is aware that at times the unique nature of securitisation SPVs, which are structured around cashflows, may not easily align to the presentation of financial information in compliance with the recognition and measurement requirements of Australian Accounting Standard, particularly with regards to non-cash accounting concepts such as fair value of derivative instruments, effective interest rate accounting and forward looking loss recognition (all under AASB 9 *Financial Instruments*). If a member chooses to present their financial information in a manner other than that determined in accordance with the recognition and measurement criteria of the accounting standards, the financial statements should make that clear to the user of the financial statements to avoid risk of misinterpretation. This aligns to the recommendations of the ED that:

- for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) – disclose an indication of how it does not comply.

The Committee recommends therefore that any non-compliance with recognition and measurement requirements of the AASB is clearly disclosed in the special purpose financial statements, and the accounting policy applied is clearly stated.

Areas of Accounting Policy to be disclosed, Critical Estimates and Judgements

For those securitisation SPVs that are stating that they comply with AASB 101, which in the experience of the Committee is most SPVs, we wished to draw members attention to some of the requirements of that standard. Under AASB 101, disclosures include:

- significant accounting policies comprising: (a) the measurement basis (or bases) used in preparing the financial statements; and (b) the other accounting policies used that are relevant to an understanding of the financial statements²;
- along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements³; and
- information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period⁴.

In the current COVID-19 economic environment, the Committee draws these paragraphs to members attention as we anticipate that an additional number of estimates and judgements will likely have been applied in the current reporting period, when accounting for the impacts of COVID-19 that should be considered for potential disclosure under the above requirements of AASB 101. In particular, such matters will likely vary by member, but may include:

- assumptions applied in the application of loan loss impairment calculations (under AASB 9 *Financial Instruments*) regarding probability of default and loss given default and the impact of factors such as loan repayment deferrals, and various government stimuli packages
- application of forward looking assumptions and future economic conditions to estimates of expected credit losses.
- loan modifications, including modification of funding facilities.

2 AASB 101.117

3 AASB 101.122

4 AASB 101.125

Recommendations

In summary, whilst the reporting requirements for securitisation SPVs have not changed for 30 June 2020, the Committee recommends members review their special purpose financial statements to ensure the disclosures therein accurately reflect the accounting presented, and in particular consider:

- 1) Clarifying the application of Australian Accounting Standards in the SPV's financial statements, including specifying:
 - a. Exactly which disclosure standards are being complied with
 - b. Including a statement that, as there is only partial compliance with the disclosure requirements of Australian Accounting Standards, the special purpose financial report does not comply with all the disclosure requirements of Australian Accounting Standards.

- 2) Assessing whether there are any Australian Accounting Standards with which the SPV's financial report does not fully comply with the recognition and measurement requirements, and if any such non-compliance is identified, disclose:
 - a. The accounting policy that has been applied
 - b. Specifically state how this differs from the requirements of the relevant Accounting Standard

- 3) Reviewing the current level of disclosures within SPV's financial statements and consider in light of the COVID-19 pandemic if, under AASB 101, additional disclosures are required as to accounting policies, estimates and judgments that have been applied in determining the information presented in the financial report.

Thank you for considering the information contained herein. If you would like to discuss these matters further, please contact the ASF Accounting and Tax Committee via [Robert Gallimore](#) (Policy Executive, Australian Securitisation Forum).

The Accounting and Tax Committee is always keen to welcome additional industry participants. If you are interested in joining please contact Heather Baister on 02 9322 5911.

Appendix A: Indicative wording for inclusion in Basis of Preparation section of Financial Report.

This should be tailored to specific Trust circumstances.

Basis of Preparation and Statement of Compliance

The Trust is not a reporting entity because, in the opinion of the [Trust Manager/Trustee], there are unlikely to exist users of the special purpose financial report who are unable to command the preparation of reports tailored to specifically satisfy all their information needs. The financial statements of the Trust have been prepared as special purpose financial statements for the purpose of fulfilling the requirements of the [Master Trust Deed].

These special purpose financial statements have been prepared in accordance with the provisions of the [Master Trust Deed], the recognition and measurement requirements of Australian Accounting Standards, and the disclosure requirements of the following Accounting Standards:

AASB 101 Presentation of Financial Statements

AASB 107 Statement of Cash Flows

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

AASB 1048: Interpretation of Standards

AASB 1054: Additional Australian Disclosures

Accordingly, special purpose financial statements cannot be described as complying with Australian Accounting Standards as they do not comply with all the disclosure requirements of Australian Accounting Standards.