Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Other Business – Public**	**Meeting:**	September 2020 (M177)
Topic:	**Cover Memo**	**Agenda Item:**	13
		Date of the Agenda Paper:	2 September 2020
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Objective of this paper

1 The objective of this paper is to inform the Board about matters under Other Business – Public. No action is required from the Board on these matters. Please refer to table below for details.

OTHER BUSINESS – AASB SUBMISSIONS

Paper No.	Title	Staff comment	Board action
	None		

OTHER BUSINESS – CORRESPONDENCE

Paper No.	Title	Staff comment	Board action
13.2.1 13.2.2	Letter from stakeholder dated 25 May 2020 Letter from stakeholder dated 25 June 2020	Two stakeholders have sent letters to the AASB Chair requesting the AASB to provide clarification or guidance related to accounting for "termination for convenience clauses". In the letter, the submitters stated that such clauses are common in government contracts (including but not limited to research grant agreements) and there are opposing views on the accounting required by the Standards. As a result, the submitters considered this issue to have possible wider public sector implications. The two views differ as to when a "termination for convenience clause" gives rise to a financial liability: • View 1: at contract inception; and • View 2: only once there is a request for repayment. Staff have briefed the Board on previous correspondence at its June meeting. Since June meeting, staff have been assessing the requests and analysing the requirements of the AAS whether there is sufficient guidance available to assess which AAS would be applicable to determine recognition and measurement of termination for convenience clauses and how these requirements would be applied. Staff have also participated in discussions with some stakeholders on this matter. Staff also note the existence of an IFRS IC agenda decision from January 2014 that may be relevant for the assessment. Given the matter may also impact for-profit entities, the staff considered the AASB *Due Process Framework* (particularly paragraphs 8.2 and 8.3). Before issuing an Interpretation of an IFRS Standard, the AASB refers the issue to the IFRS IC. If the IFRS IC declines to address it, and the agenda decision does not provide adequate guidance, the AASB proceeds with a domestic Interpretation if and only if the issue is widespread, with diversity in practice and relates to Australian-specific legislation or circumstances.	Included for noting only. No action required at this meeting.

Paper No.	Title	Staff comment	Board action
		Staff will continue to engage with stakeholders to obtain further feedback and will provide a further update including recommendation to the Board on next steps at a later meeting.	
13.2.3 13.2.4	Letter from HoTARAC dated 2 July 2020 AASB Chair's reply to HoTARAC dated 10 August 2020	The HoTARAC letter requests the Board to consider providing a permanent option for not-for-profit (NFP) public sector entities to measure a class of right-of-use (ROU) assets arising under "existing" concessionary leases either at cost or at fair value. That is, HoTARAC is requesting the fair value measurement requirement to be applied only to concessionary leases entered into on or after the effective date of when the current temporary relief (the choice of measuring at cost or at fair value) is removed. Concessionary leases are "leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives". **Background** AASB 16 initially required NFP entities to measure ROU assets arising under concessionary leases at initial recognition at fair value (as a result of amendments by AASB 1058 *Income of Not-for-Profit Entities*). After considering stakeholders' comments, the Board issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* and AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases* to provide temporary relief for NFP entities, in both the private and public sectors, by providing a choice to measure a class of such ROU assets either at cost or at fair value. Paragraph BC10 of AASB 2018-8 states that the Board had intended to reassess the temporary option when further guidance has been developed to assist NFP entities in fair valuing ROU assets and the financial reporting requirements for private sector NFP entities have been finalised. It also noted that "The Board will consider whether to provide a permanent option for not-for-profit entities to measure a class of right-of-use assets at initial	Included for noting only. No action required at this meeting.

Paper No.	Title	Staff comment	Board action
		recognition either at cost or at fair value for those concessionary leases entered into prior to the application date of AASB 16 or for all concessionary leases.” [emphasis added] **AASB Chair’s reply to HoTARAC** The reply letter to HoTARAC mentions that staff will look into the matter for Board consideration at a future meeting. **Next steps** Staff observe that the Board has planned to assess the matter when the Board has progressed further in the projects mentioned in paragraph BC10 of AASB 2018-8. Staff consider that this is not an urgent matter as NFP entities currently have the option to measure a class of ROU assets arising under concessionary leases either at cost or at fair value. Therefore, staff plan to: • undertake the project to reassess the temporary relief when the NFP private sector financial reporting framework and the guidance on the fair value of ROU assets are close to being finalised; and • in the meantime, engage with HoTARAC to obtain further information on this matter, as instructed in the Chair’s reply letter.	

OTHER BUSINESS – IASB and IFRS IC UPDATES

Paper No.	Title	Staff comment	Board action
13.3.1	IASB Update June 2020	Staff do not consider there are any matters to raise with the IASB in relation to their decisions in their June meeting.	Included for noting only. No action required at this meeting.

Paper No.	Title	Staff comment	Board action
13.3.2	IASB Update July 2020	Staff do not consider there are any matters to raise with the IASB in relation to their decisions in their July meeting.	Included for noting only. No action required at this meeting.
13.3.3	IFRIC Update April 2020	Staff do not consider there are any matters to raise with the IFRS Interpretations Committee in relation to their decisions in their April meeting.	Included for noting only. No action required at this meeting.
13.3.4	IFRIC Update June 2020	Staff do not consider there are any matters to raise with the IFRS Interpretations Committee in relation to their decisions in their June meeting.	Included for noting only. No action required at this meeting.

OTHER BUSINESS – IPSASB Report

Item No.	Title	Staff comment	Board action
13.4.1	IPSASB Report	Please refer to the agenda paper 13.5.1 for more information.	Note risks and opportunities for the AASB.

OTHER BUSINESS – ARTICLES AND NEWS

Paper No.	Title	Content of item	Board action
13.5.1	Article in "IN THE BLACK" - Audit in Australia: A way forward	The article talks about the Parliamentary Joint Committee's (PJC) recommendations aimed at boosting confidence in audit quality. It further states that the greatest impact on entities and auditors is likely to be the proposal for mandatory audit tendering, internal controls reporting and assurance.	Included for noting only. No action required at this meeting.

Paper No.	Title	Content of item	Board action
		The article also compares the PJC review with Sir Donald Brydon's independent review into the quality and effectiveness of audit in the UK.	
13.5.2	Article in "Banking Day" - What Wirecard could teach us about corporate governance	An accounting body in Germany, the Institute of Public Auditors, has picked away at Wirecard's carcass and has been pointing to things that the fintech had done poorly and what solutions could be implemented. It was evident that there was no separate audit committee of the company until 2019 as a result of the optional nature of the corporate governance guidance in Germany. The accounting body recommends these guidelines, such as the creation of audit committees, be mandated in law. The article mentions this is similar to the 'if not, why not' approach in the ASX Corporate Governance Council principles and recommendations and raises the question "Is it time to kill off that approach and hardwire some of these things in the Corporations Act 2001"?	Included for noting only. No action required at this meeting.
13.5.3	AASB 16 accounting standards tying retailers in knots	This article suggests AASB 16 *Leases* is creating chaos for many audited corporate balance sheets and making it very difficult for those who use net tangible asset backing as part of their portfolio evaluations. It also suggests it's distorting earnings, forcing companies to ignore accounting standards in their direct messages to small shareholders. It continues that under AASB 16, liabilities for lease contracts must be incorporated in the balance sheet among all other liabilities. But this required an offsetting asset and so a highly theoretical asset – called the "right to use" the leased assets – was installed on the assets side. The actual mechanism used in this manoeuvre not only causes balance sheet problems but distorts statutory earnings.	Included for noting only. No action required at this meeting.

Paper No.	Title	Content of item	Board action
		It explains that in Coles statutory accounts prepared under AASB 16, operating lease expenses are no longer recognised and have been replaced by depreciation of the "right to use" asset. As a result, Coles statutory group earnings before interest and tax (EBIT) rose by $317m but profit after tax fell by $17m. Therefore, Coles issued two sets of results – one using what they think is the right set of rules and one using IFRSs.	
13.5.4	Non-profit aged care homes are making big money, but crying poor: report	This article argues that some of Australia's biggest not-for-profit nursing home providers are claiming financial hardship to argue they need millions of dollars in extra government funding even though they are generating large cash surpluses. While smaller nursing homes are struggling according to analysis from the Centre for International Corporate Tax Accountability and Research, the financial reports of the largest church and charity-run nursing home businesses show they are generating substantial incomes. The article mentions it is difficult to make firm judgments about the true financial position of some of the largest charitable and religious organisations because their accounts are not "Tier 1" under Australian accounting standards, and therefore lack detailed explanations.	Included for noting only. No action required at this meeting.