

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 182
15 December 2016

Welcome to the AASB Action Alert

The AASB Board met in public on 13-14 December 2016. At the meeting the Board made key decisions in relation to:

- [Reduced Disclosure Requirements](#)
- [Service Concession Arrangements: Grantors](#)
- [Income Tax Disclosures](#)
- [Related Party Disclosures – Public Sector](#)
- [Reporting Service Performance Information](#)

The Board also discussed the following topics:

- [Survey of Not-for-Profit Managers](#)
- [IASB Pronouncements](#)

Reduced Disclosure Requirements

The Board made the following decisions regarding its draft Exposure Draft ED 2XX *Reduced Disclosure Requirements for Tier 2 Entities* and draft Analysis Document for determining Tier 2 disclosure requirements:

- issue the ED late January 2017;
- a comment period of 120 days, with comments due around the end of May 2017;
- include the proposed *Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand*, which would replace the Board's current approach for determining Tier 2 disclosures;

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- (d) propose an appendix for each Standard that includes disclosure requirements. The appendix would contain the Tier 2 disclosures for that Standard. This approach would replace the Board's current approach of shading disclosures within the Standard that Tier 2 entities are not required to provide;
- (e) a proposed effective date of annual periods beginning on or after 1 January 2019;
- (f) permit early application of the amended Tier 2 disclosures for annual periods beginning on or after 1 January 2018, with:
 - (i) AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as revised through this ED applied at the same time an entity first applies a Standard that is revised by this ED; and
 - (ii) early adoption of the amended Tier 2 disclosures in AASB 140 *Investment Properties* permitted only when the entity also applies AASB 16 *Leases* (as AASB 16 amended AASB 140); and
- (g) the Analysis Document to be publicly available with the ED.

The ED proposals are to amend the Tier 2 disclosures. The ED would not change which entities are permitted to report in accordance with Tier 2 accounting requirements and would not change the recognition and measurement requirements applying to Tier 2 entities.

Service Concession Arrangements: Grantors

The Board tentatively decided the Standard *Service Concession Arrangements: Grantors* should include guidance on 'public service' for assessing whether an arrangement is within the scope of the Standard. The guidance should be in the form of examples and features to be considered, such as:

- (a) an operator must be responsible for at least some of the management of the service concession asset and related services, and does not act merely as an agent of the grantor and
- (b) services that are insignificant to the arrangement as a whole may be ancillary services.

The Board requested Staff to review the 'service concession asset' definition for consistency with the proposed public service guidance.

The Board reaffirmed its previous tentative decision that no further guidance is necessary for the:

- (a) terms of 'outsourcing', 'service contract', 'privatisation', 'significant residual interest' and 'estimated current value';
- (b) accounting for other revenues – references to AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* are to be included instead; and
- (c) accounting for life cycle costs – references to AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* for accounting for costs subsequent to the initial recognition of an asset are to be included.

The Board decided:

- (a) the effective date of the Standard would be annual reporting periods beginning on or after 1 January 2019;
- (b) to clarify the modified retrospective transition approach for measuring the unearned revenue liability under the grant of the right to the operator (GORTO) model. The approach would measure the liability based on the fair value of the asset at the transition date, adjusted to reflect the remaining concession period relative to the remaining useful life of the asset. Additionally, the accumulated surplus/deficiency adjustment on transition for the financial liability model would also apply to the GORTO model; and
- (c) to adopt a principles-based approach for the disclosure requirements and to remove references to accounting for service concession assets as a separate class or classes of assets. The latter amendment is consistent with the recently issued IPSAS *Improvements to IPSASs 2015*.

The Board also discussed the final findings of the field test on service concession arrangements and agreed to provide an additional 'hybrid' example to assist preparers in implementing the Standard.

The Board discussed the draft Standard and decided to:

- (a) require an existing asset that is reclassified as a service concession asset (including an intangible asset) to be remeasured at fair value (current replacement cost) at the time of reclassification;
- (b) state explicitly that in a hybrid arrangement, the financial liability part is to be measured first and the remainder of the total liability allocated to the part related to the grant of the right to the operator; and
- (c) publish a revised draft Standard on the AASB website in February 2017 for a fatal-flaw review process.

Income Tax Disclosures

The Board tentatively decided, in response to the Board of Taxation request for the AASB to assist entities in implementing Part A of the voluntary Tax Transparency Code (TTC), to develop draft non-mandatory guidance in the form of an Appendix to the TTC. The draft guidance is expected to be issued in February 2017, with the Board intending to revisit the guidance after considering usage during the 30 June 2017 reporting period and further consultation with preparers and users.

The Board tentatively decided the non-mandatory guidance would:

- (a) highlight the definition of 'effective tax rate' in AASB 112 *Income Taxes* (paragraph 86) as an existing 'common definition' and identify how the specific matters identified in the Board of Taxation request are incorporated within this definition;
- (b) clarify that any alternative effective tax rate (ETR) or any other metrics disclosed should have regard to the principles in ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information* and the IASB Principles of Disclosure project for guidance on using alternative measures (eg reconciliation to the ETR per AASB 112 and explanation of the objective of alternative measures).
- (c) make clear that alternative ETR measures can be presented in financial statements where considered appropriate to explain the tax risks impacting the entity;
- (d) illustrate an alternative presentation of the tax reconciliation, to reconcile from net profit before tax to current tax payable, including some common line items in reconciling income tax expense to income taxes paid per the cash flow statement, or income taxes paid and payable. The example will also illustrate a possible disaggregation between foreign and domestic amounts and disclosure of non-recurring items; and
- (e) refer to the qualitative characteristics underpinning useful financial information to which preparers may want to have regard when presenting information to comply with the TTC, such as neutrality, faithful representation and materiality.

The Board noted the AASB 112 definition of ETR is unlikely to satisfy users, but decided not to mandate a common alternative ETR measure. The Board considered that the specific facts and circumstances of a taxpayer would make determining such a measure difficult, and that users would be best served by having more information about why a taxpayer has chosen its alternative ETR and by better explanations of the reconciling items between accounting profit and taxable income. Feedback to the Board to date indicates the likely objective of an alternative ETR is to provide users with information regarding a sustainable/maintainable tax rate. The Board noted that issuing the guidance in draft form for use during

the next reporting season as a form of consultation would enable the Board to consider practical examples and revisit its decisions regarding alternative ETR. The Board decided not to propose additional tax disclosures in general purpose financial statements at this time, as it considered that improvements in tax reconciliation disclosures in response to the TTC may be sufficient.

Related Party Disclosures – Public Sector

The Board decided to issue a Tentative Agenda Decision responding to a concern about the implementation of AASB 124 *Related Party Disclosures* by public sector entities. The Tentative Agenda Decision will be issued for public comment in December 2016, and will comment on materiality as it applies to transactions with related parties of key management personnel, particularly close family members, that are conducted on normal terms and conditions. The Board expects to finalise the Agenda Decision early in 2017.

In addition, the Board decided to explore the possibility of developing ‘frequently asked questions’ on the application of AASB 124. If developed, these are expected to be identified as AASB staff views, rather than Board guidance, on AASB 124.

Reporting Service Performance Information

The Board considered the feedback received on ED 270 *Reporting Service Performance Information* and noted constituents generally agreed with the objectives and principles of service performance reporting. However, constituents, raised concerns relating to:

- (a) the overlap between ED 270 and existing reporting frameworks and government reporting requirements;
- (b) the proposed mandatory status of the draft Standard; and
- (c) the costs of implementing the Standard potentially outweighing the benefits of the information provided, particularly for small and medium-sized entities.

The Board decided to continue the project, given the importance of reporting service performance information in providing information about the entity that is useful to users for evaluating accountability and for other decision-making purposes. However, the Board noted further work would be required in areas such as:

- (a) consultation with users, preparers and regulators of service performance reporting;
- (b) publishing any relevant academic research on user needs;

- (c) benchmarking existing frameworks and government reporting requirements;
- (d) field testing a number of large, not-for-profit entities already reporting service performance information; and
- (e) using simpler language and providing a more overarching framework for the preparation of such reporting.

Survey of Not-for-Profit Managers

Ralph Kober from Monash University presented to the Board his research paper *The perceptions of NFP managers: Initial insights on financial statement preparation, the conceptual framework, and accounting standards* – co-authored with Janet Lee and Juliana Ng from the Australian National University.

The Board noted the research participants were preparers from entities with over \$1 million in revenue, and also that the findings were consistent with feedback the Board has received directly that indicates that using IFRS Standards as a base, with suitable modifications, currently is considered appropriate.

IASB Pronouncements

As the IASB has recently finalised and issued a number of pronouncements, the Board decided the following amendments to Standards and an Interpretation are to be finalised out of session:

- (a) amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (from annual improvements, 2014-2016 cycle);
- (b) amendments to AASB 12 *Disclosure of Interests in Other Entities* (from annual improvements, 2014-2016 cycle);
- (c) amendments to AASB 128 *Investments in Associates and Joint Ventures* (from annual improvements, 2014-2016 cycle);
- (d) amendments to AASB 140 *Investment Property* (regarding transfers of investment property); and
- (e) Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

The amendments to AASB 12 will apply to annual periods beginning on or after 1 January 2017 for all entities.

The remaining pronouncements will apply to annual periods beginning on or after 1 January 2018 for the for-profit sector. As for the not-for-profit sector, the Board decided to defer the effective date of the remaining pronouncements to annual periods beginning on or after 1 January 2019, consistent with the

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Board's previous decision to defer AASB 15 *Revenue from Contracts with Customers* and its consequential amendments to other pronouncements for the not-for-profit sector.

Recently Approved Documents

Since last reported (28 November 2016), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
5 October 2016	AASB 2016-6 <i>Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts</i>	1 January 2018
9 December 2016	AASB 1058 <i>Income of Not-for-Profit Entities</i> AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i> AASB 2016-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i>	1 January 2019

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IPSASB	Public Sector Specific Financial Instruments	–	–	31 December 2016

Upcoming meetings and events

2-3 March 2017	International Forum of Accounting Standard Setters (IFASS)
6-7 March 2017	Accounting Standards Advisory Forum (ASAF)
7-10 March 2017	International Public Sector Accounting Standards Board (IPSASB)
27 March 2017	AASB Meeting (teleconference)
2-3 May 2017	AASB Meeting
27-28 June 2017	AASB Meeting
15 August 2017	AASB Meeting



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Upcoming meetings and events

10-11 October 2017	AASB Meeting
12-13 December 2017	AASB Meeting

The AASB meeting scheduled for 21-22 February 2017 will not be held.