

Withdrawal of AASB 1031 *Materiality*

AASB Staff Issues Paper

Introduction

- 1 The purpose of this paper is to consider the most appropriate way to implement the Board's decision to proceed with the withdrawal of AASB 1031 *Materiality*.
- 2 The proposal in [ED 243 *Withdrawal of AASB 1031 Materiality*](#) was to withdraw AASB 1031 by superseding it with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and removing the reference to AASB 1031 from each standard and interpretation via an amending standard. This would require removing the reference to AASB 1031 from 53 standards and 35 interpretations. Of the 53 standards, 48 are made under section 334 of the *Corporations Act 2001* and are therefore required to be compiled and registered at a fee on the Federal Register of Legislative Instruments (FRLI). Interpretations and those standards not made under section 334 of the *Corporations Act 2001* are not required to be registered on FRLI but will still require staff resources to make the necessary amendments.
- 3 At the October 2013 AASB meeting, the Board directed staff to bring to the December 2013 AASB meeting, a paper detailing alternative ways in which the withdrawal of AASB 1031 could be achieved. Staff have identified two approaches that would ultimately achieve the same technical outcome as the proposal in ED 243. These two approaches are discussed below. For each of the approaches the focus is only on those standards made under section 334 of the *Corporations Act 2001*, as these are the standards that require FRLI registration.
- 4 The following table summarises the two approaches.

	Approach 1	Approach 2
Step 1	Supersede AASB 1031 with AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Amend AASB 1031 to be consistent with the forthcoming <i>Conceptual Framework</i> , AASB 101 <i>Presentation of Financial Statements</i> (amended December 2013) and AASB 108
Step 2	Remove references to AASB 1031 as and when amendments are made to other standards	
Step 3		Supersede AASB 1031 with AASB 108

Approach 1

- 5 The first approach is similar to the proposal in ED 243, in that an amending standard would be issued to make changes to AASB 108 so that it supersedes AASB 1031. However, this approach differs from ED 243 in that the amending standard would not make consequential amendments to remove references to AASB 1031 in other standards. Instead, amendments to remove the references to AASB 1031 from the other standards would be done as and when those standards are amended for other changes. For example, when the new revenue standard is issued it will require

consequential amendments to a number of standards; the removal of references to AASB 1031 would be made at the same time.

- 6 Staff have reviewed the outstanding projects (with reference to the AASB work plan as at 25 November 2013). The attached appendix details the staff **estimation** of when each standard will require amending. Staff **estimate** that (if all goes according to schedule) by Q2 2014 amendments will be required to all but thirteen standards. At this point, a decision will be made whether to remove all the existing reference to AASB 1031 in one amending standard or whether to continue with only removing the reference as and when the standard is amended for other reasons.
- 7 There are advantages and disadvantages to this approach.
- 8 An advantage is that AASB 1031 is superseded at the same time as the application date of the amending standard is effective (e.g. annual reporting periods beginning on or after 1 January 2014).
- 9 Disadvantages of this approach include:
 - (a) If AASB 1031 is superseded and the references to it in other standards are not removed at the same time, there will be 'hanging references' that refer to a standard that is no longer effective.
 - (b) It is possible that the timing of the projects in the AASB's work plan will slip, resulting in a longer timeframe than anticipated for the removal of the 'hanging references'.

Approach 2

- 10 An alternative approach is not to withdraw AASB 1031 immediately but, rather, amend the requirements of AASB 1031 to be consistent with the wording in the *Framework for the Preparation and Presentation of Financial Statements* (amended December 2013) AASB 101 and AASB 108. In addition, this approach would amend AASB 1031 to include a 'signpost' to these pronouncements (see proposed paragraphs 8-9 of revised wording below).
- 11 The revised wording for AASB 1031 could be as follows:

Application of Materiality

1-6 [Objective and application paragraphs]

[Paragraphs 7-9 following, replace paragraphs 7-19 and the Appendix]

7 Material is defined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as - omissions or misstatements of items are material if they could individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

8 When assessing materiality the requirements in AASB 101 *Presentation of Financial Statements* and AASB 108 shall be applied.

- 10 As a second step, like with Approach 1, is to remove the reference to AASB 1031 in each standard as and when standards are being amended for changes resulting from other projects (e.g. as a result of new pronouncements issued by the IASB).
- 11 Ultimately, once all references to AASB 1031 have been removed from standards, AASB 108 would be amended to supersede AASB 1031. This amendment would result in the formal withdrawal of AASB 1031.
- 12 As with Approach 1, there are advantages and disadvantages to this approach. The advantages include:
- (a) There would be no ‘hanging references’ as would result from applying Approach 1 because AASB 1031 would still apply, albeit without substantive guidance.
 - (b) There is no consequence if the timing of AASB projects slip because AASB 1031 remains effective.
- 13 The disadvantages of this approach include:
- (a) As the references to AASB 1031 are removed from some standards but remain in others (step 2), there could be a (albeit obtuse) perception that when applying a standard that does not specifically refer to AASB 1031 the concept of materiality does not apply.
 - (b) It is possible that the timing of the projects in the AASB’s work plan will slip, resulting in a longer timeframe than anticipated for the removal of references to AASB 1031.

Staff recommendation

- 14 Both approaches would achieve the objective of withdrawing AASB 1031 over the same timeframe. Although staff acknowledge that neither approach is ideal, on balance, on the assumption that it is not feasible to remove all references in Standards to AASB 1031 at the same time that the Standard is withdrawn, staff recommend Approach 2. This recommendation is made on the basis that Approach 2 does not result in ‘hanging’ references to a non-effective standard. Further, staff consider Approach 2 is likely to be more easily understood by constituents, as AASB 1031 will remain effective until all references to it in other standards are removed.

Question to the Board

Does the Board agree with the staff recommendation in paragraph 14 above?

Standards requiring amendment as a result of withdrawing AASB 1031 Materiality

Based on AASB published work program as at 25 November 2013. Based on expectations up to Q2 2014, excluding standards that might be amended as a result the interim Conceptual Framework project.

Standards that are required to be registered on FRLI						
Number	Title	Corporations Act	Refers to Materiality	Due to be amended	By what	When
AASB 1	<i>First-time Adoption of International Financial Reporting Standards</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Annual Improvements (AI) 2011-2013	Q4, 2013
				Yes	Regulatory Deferral	Q1, 2014
				Yes	Joint Operation	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
AASB 2	<i>Share-based Payment</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013
AASB 3	<i>Business Combinations</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	AI 2010-2012	Q4, 2013
				Yes	AI 2011-2013	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
AASB 4	<i>Insurance Contracts</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
AASB 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>	Yes	Yes	Yes	Hedging	Q4, 2013
AASB 6	<i>Exploration for and Evaluation of Mineral Resources</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 7	<i>Financial Instruments: Disclosures</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Class & Measurement	Q2, 2014
				Yes	Impairment	Q2, 2014
AASB 8	<i>Operating Segments</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013

Standards that are required to be registered on FRLI						
Number	Title	Corporations Act	Refers to Materiality	Due to be amended	By what	When
AASB 9	<i>Financial Instruments</i>	Yes	Yes	Yes	Revenue	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
AASB 10	<i>Consolidated Financial Statements</i>	Yes	Yes	Yes	Sale or Contribution of Assets	Q1, 2014
AASB 11	<i>Joint Arrangements</i>	Yes	Yes	Yes	Joint Operation	Q1, 2014
AASB 12	<i>Disclosure of Interests in other Entities</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 13	<i>Fair Value Measurement</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013
				Yes	AI 2011-2013	Q4, 2013
AASB 101	<i>Presentation of Financial Statements</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	AI 2010-2012	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
AASB 102	<i>Inventories</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
AASB 107	<i>Statements of Cash Flows</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013
AASB 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Yes	Yes	Yes	Hedging	Q4, 2013
AASB 110	<i>Events after the Reporting Period</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 111	<i>Construction Contracts</i>	Yes	Yes	Yes	Revenue	Q1, 2014
AASB 112	<i>Income Tax</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	AI 2010-2012	Q4, 2013
				Yes	Revenue	Q1, 2014
AASB 116	<i>Property, Plant and Equipment</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Methods of Depreciation & Amortisation	Q1, 2014
AASB 117	<i>Leases</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 118	<i>Revenue</i>	Yes	Yes	Yes	Hedging	Q4, 2013

Standards that are required to be registered on FRLI						
Number	Title	Corporations Act	Refers to Materiality	Due to be amended	By what	When
				Yes	Revenue	Q1, 2014
				Yes	Impairment	Q2, 2014
AASB 119	<i>Employee Benefits</i>	Yes	Yes	Yes	Defined Benefit Plans	Q4, 2013
AASB 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Yes	Yes	Yes	Hedging	Q4, 2013
AASB 121	<i>The Effects of Changes in Foreign Exchange Rates</i>	Yes	Yes	Yes	Hedging	Q4, 2013
AASB 123	<i>Borrowing Costs</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 124	<i>Related Party Disclosures</i>	Yes	Yes	Yes	AI 2010-2012	Q4, 2013
				Yes	Related party disclosures in not-for-profit public sector entities	Q1, 2014
AASB 127	<i>Separate Financial Statements</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 128	<i>Investments in Associates</i>	Yes	Yes	Yes	Net Asset Changes	Q1, 2014
				Yes	Sale or Contribution of Assets	Q1, 2014
				Yes	Impairment	Q2, 2014
AASB 129	<i>Financial Reporting in Hyperinflationary Economies</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 131	<i>Interests in Joint Ventures (not-for-profit entities)</i>	Yes	Yes	This version is Not-for-Profit (NFP) only and will not apply to periods beginning on or after 1 Jan 2014 therefore no need to amend.		
AASB 132	<i>Financial Instruments: Presentation</i>	Yes	Yes	Yes	Hedging	Q4, 2013
AASB 133	<i>Earnings per Share</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 134	<i>Interim Financial Reporting</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 136	<i>Impairment of Assets</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	AI 2010-2012	Q4, 2013
				Yes	Revenue	Q1, 2014

Standards that are required to be registered on FRLI						
Number	Title	Corporations Act	Refers to Materiality	Due to be amended	By what	When
AASB 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
AASB 138	<i>Intangible Assets</i>	Yes	Yes	Yes	Revenue	Q1, 2014
				Yes	Methods of D & A	Q1, 2014
AASB 139	<i>Financial Instruments: Recognition and Measurement</i>	Yes	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Impairment	Q2, 2014
AASB 140	<i>Investment Property</i>	Yes	Yes	Yes	AI 2011-2013	Q4, 2013
				Yes	Revenue	Q1, 2014
AASB 141	<i>Agriculture</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 1004	<i>Contributions</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 1023	<i>General Insurance Contracts</i>	Yes	Yes	Yes	Revenue	Q1, 2014
AASB 1038	<i>Life Insurance Contracts</i>	Yes	Yes	Yes	Revenue	Q1, 2014
AASB 1039	<i>Concise Financial Reports</i>	Yes	Yes	Yes	Revenue	Q1, 2014
AASB 1048	<i>Interpretation of Standards</i>	Yes	Yes	No amendments expected by Q2 2014		
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>	Yes	Yes	Yes	Tier 2 transition requirements	Q2, 2014
AASB 1054	<i>Australian Additional Disclosures</i>	Yes	Yes	No amendments expected by Q2 2014		

Standards and Interpretations that are not required to be registered on FRLI						
Number	Title	Corporations Act	Materiality	Due to be amended	By what	When
AASB 1049	<i>Whole of Government and General Government Sector Financial Reporting</i>	No	Yes	Yes	Revenue	Q1, 2014
AASB 1050	<i>Administered Items</i>	No	Yes	No amendments expected by Q2 2014		
AASB 1051	<i>Land Under Roads</i>	No	Yes	No amendments expected by Q2 2014		

Standards and Interpretations that are not required to be registered on FRLI						
Number	Title	Corporations Act	Materiality	Due to be amended	By what	When
AASB 1052	<i>Disaggregated Disclosures</i>	No	Yes	No amendments expected by Q2 2014		
AASB 1055	<i>Budgetary Reporting</i>	No	Yes	No amendments expected by Q2 2014		
AAS 25	<i>Financial Reporting by Superannuation Plans</i>	No	Yes (AAS 5)	Yes	Superannuation	Q1, 2014
Interpretation 1	<i>Changes in existing decommissioning, restorations and similar liabilities</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 2	<i>Members' shares in Co-operative Entities and Similar Instruments</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 4	<i>Determining whether an Arrangement contains a Lease</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 6	<i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 7	<i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economics</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 9	<i>Reassessment of Embedded Derivatives</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 12	<i>Service Concession Arrangements</i>	No	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
				Yes	Class & Measurement	Q2, 2014
Interpretation 13	<i>Customer Loyalty Programmes</i>	No	Yes	Yes	Revenue	Q1, 2014

Standards and Interpretations that are not required to be registered on FRLI						
Number	Title	Corporations Act	Materiality	Due to be amended	By what	When
Interpretation 14	<i>AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 15	<i>Agreements for the Construction of Real Estate</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 16	<i>Hedges of a Net Investment in a Foreign Operation</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 17	<i>Distributions of Non-cash Assets to Owners</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 18	<i>Transfers of Assets from Customers</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 21	<i>Levies</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 107	<i>Introduction of the Euro</i>	No	Yes	Yes	Hedging	Q4, 2013
Interpretation 110	<i>Government Assistance – No Specific Relation to Operating Activities</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 112	<i>Consolidation – Special Purpose Entities</i>	No	Yes	This Interpretation is superseded by AASB 10 which became effective 1 January 2013 for for-profit entities and becomes effective 1 January 2014 for not-for-profit entities – therefore no need to amend		
Interpretation 113	<i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>	No	Yes	This Interpretation is superseded by AASB 11 that became effective 1 January 2013 for for-profit entities and becomes effective 1 January 2014 for not-for-profit entities – therefore no need to amend.		
Interpretation 115	<i>Operating Leases – Incentives</i>	No	Yes	No amendments expected by Q2 2014		

Standards and Interpretations that are not required to be registered on FRLI						
Number	Title	Corporations Act	Materiality	Due to be amended	By what	When
Interpretation 121	<i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>	No	Yes	This Interpretation is superseded by AASB 112 – therefore no need to amend		
Interpretation 125	<i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 127	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	No	Yes	Yes	Hedging	Q4, 2013
				Yes	Revenue	Q1, 2014
Interpretation 129	<i>Service Concession Arrangements: Disclosures</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 131	<i>Revenue – Barter Transactions Involving Advertising Services</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 132	<i>Intangible Assets – Web Site Costs</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 1003	<i>Australian Petroleum Resource Rent Tax</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 1019	<i>The Superannuation Contributions Surcharge</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 1030	<i>Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 1031	<i>Accounting for the Goods and Services Tax (GST)</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 1038	<i>Contributions by Owners Made to Wholly-owned Public Sector Entities</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 1042	<i>Subscriber Acquisition Costs in the Telecommunications Industry</i>	No	Yes	Yes	Revenue	Q1, 2014
Interpretation 1047	<i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i>	No	Yes	No amendments expected by Q2 2014		
Interpretation 1052	<i>Tax Consolidation Accounting</i>	No	Yes	Yes	Revenue	Q1, 2014

Standards and Interpretations that are not required to be registered on FRLI						
Number	Title	Corporations Act	Materiality	Due to be amended	By what	When
Interpretation 1055	<i>Accounting for Road Earthworks</i>	No	Yes	No amendments expected by Q2 2014		