



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 164

10 April 2014

Welcome to the AASB Action Alert

The AASB Board met in public on 8-9 April 2014. At this meeting the AASB made key decisions in relation to:

- **Superannuation Entities** – considered feedback on the fatal flaw review draft and noted that no fatal flaws were identified. The Board decided to progress to balloting the Standard.
- **Service Performance Reporting** – considered the key issues to raise in its submission on IPSASB ED 54 and decided that IPSASB ED 54, in combination with the AASB staff's research to date and the NZASB project on service performance reporting would provide a sound basis for developing an AASB ED.

The Board also discussed the following topics:

- **International Meetings Update**
- **Disclosure Initiative and related IAS 1 projects**
- **Equity Method: Share of Other Net Asset Changes**
- **Leases**
- **Insurance**
- **Financial Instruments**
- **Annual Improvements**
- **IFRS Interpretations Committee**
- **IPSASB**
- **Emerging Issues**

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Superannuation Entities

The Board considered the feedback on the Draft AASB 105X *Superannuation Entities* for fatal flaw review that has been received through formal submissions and other liaison with key constituents. The Board noted that no fatal flaws were identified. However, in response to the feedback received, the Board decided to:

- (a) limit the requirement to disclose revenue and expense items related to any insurance contract liabilities and assets to those associated with defined contribution members;
- (b) retain the Draft AASB 105X definitions for 'defined benefit member' and 'defined contribution member', and to explain that the AASB does not expect there to be any difference between those members identified as being either defined contribution members or defined benefit members based on definitions in this Standard and those members identified as being either defined contribution members or defined benefit members based on the defined benefit member definition under prudential regulation;
- (c) retain the use of the term 'superannuation entity' to identify the entities to which the Standard applies and clearly note the differences from the same term used in prudential regulation; and
- (d) add clarification that the investment returns relevant to measuring a defined benefit member liability could relate to a portfolio of instruments that are expected to yield either contractual or non-contractual net cash inflows that match the timing of expected net cash outflows relating to the liability.

The Board noted that staff are currently dealing with the Office of Best Practice Regulation to finalise a Regulation Impact Statement for the Standard. The Board decided to progress to balloting and plans to make the Standard in Q2 2014, applicable to periods beginning on or after 1 July 2016. The Standard will replace AAS 25 *Financial Reporting by Superannuation Plans*.

Service Performance Reporting

The Board considered the key issues to raise in its submission on IPSASB Exposure Draft (ED) 54 *Reporting Service Performance Information*, which is a Proposed Recommended Practice Guideline (RPG) written in the context of the IPSASB's Conceptual Framework and its suite of pronouncements. Within that context, subject to consideration of any comments that might be forwarded to the Board from AASB constituents, the Board decided to express broad agreement with many of the specific proposals in the ED. However, it also decided to suggest a number of improvements, the more substantive of which include:



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- (a) the RPG should make clear that the service performance information an entity should provide should be driven by the entity's objectives. Therefore, if information about, for example, obtaining resources, achieving outcomes, disaggregation of costs, and progress towards long-term objectives is determined to be relevant to users for assessing an entity's achievement of its objectives, then that information should be disclosed (rather than merely encouraged to be disclosed). Consistent with this, the RPG should also better articulate principles for framing objectives in terms of outputs and outcomes;
- (b) despite its non-mandatory status, the RPG should aim to strike a better balance between improvements to the quality of service performance reporting practices and the costs entities might incur to make such improvements. The Board decided to comment that, allowing entities to perform their own cost benefit assessments of information to be included and still claim compliance with the RPG would not be sufficiently robust; and
- (c) the RPG should aim to better articulate the principles for and the circumstances in which 'quantitative measures' or 'qualitative measures' or 'qualitative descriptions' about outputs and outcomes might be most suitable, individually or in combination.

The Board noted the progress being made on its own Service Performance Reporting research project, and considered whether IPSASB ED 54 provides a suitable basis for accelerating that project. The Board also noted that the NZASB is developing a standard on service performance reporting. The Board decided that IPSASB ED 54, in combination with the AASB staff's research to date and the NZASB's work, would provide a sound basis for reorienting its work from 'green fields' research to developing an AASB ED of a proposed Standard. The Board also decided that the project should include within its scope both public sector and private sector not-for-profit entities.

International Meetings Update

The Board received a report on the following international meetings held in March 2014 attended by AASB representatives:

- Accounting Standards Advisory Forum – IASB (ASAF);
- International Forum of Accounting Standard Setters (IFASS);
- Asian-Oceanian Standard-Setters Group (AOSSG) Interim Meeting; and
- Regional Policy Forum (RPF).



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The Board noted:

- (a) at the ASAF meeting the topics of discussion included the Conceptual Framework, Lease Accounting, Insurance Contracts, the Disclosure Initiative, Rate Regulation and the Equity Method.
- (b) at the IFASS meeting a range of topics was discussed including:
 - the criteria used by the IFRS Interpretations Committee for potential agenda items and the criteria for the IASB for annual improvements;
 - the role of the 'business model' in financial reporting;
 - goodwill and impairment;
 - an IPSASB update;
 - IAS 19 *Employee Benefits* discount rate issues;
 - application issues of IFRS 11 *Joint Arrangements*;
 - macro hedge accounting (presented by AASB staff);
 - reporting cash flow information; and
 - how capital providers use financial information.
- (c) at the RPF a presentation, *Leasing – A New Approach?* was given by AASB staff.

Disclosure Initiative and related IAS 1 projects

The Board received an update on the recent tentative decisions made by the IASB in its Disclosure Initiative and related IAS 1 *Presentation of Financial Statements* projects.

The Board noted the tentative decisions made by the IASB discussed at the IASB March 2014 meeting in relation to the following projects:

- (a) Amendments to IAS 1 and the issuance of the AASB Exposure Draft ED 249 *Disclosure Initiative (Proposed amendments to AASB 101)*, which incorporates the IASB issued IASB Exposure Draft ED/2014/1 *Disclosure Initiative*;
- (b) Materiality;
- (c) Changes in debt (net debt); and
- (d) IAS 1 *Presentation of Financial Statements* – current/non-current classification of liabilities.



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The Board expressed concern in relation to the IASB's decision to proceed with the proposals to add disclosures relating to net debt. Despite these concerns the Board decided there were no issues that ought to be raised with the IASB at this stage of the projects.

Equity Method: Share of Other Net Asset Changes

The Board received an update on the progress of the IASB's project in relation to Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes*. In particular, the Board noted that the IASB has reconsidered its proposed amendments in ED/2012/3 and, at its February 2014 meeting, tentatively decided to proceed with finalising the proposed amendments to provide a short-term solution to the diversity in practice. This tentative decision reverses the IASB's previous tentative decision from its October 2013 meeting to not proceed with the proposed amendments due to the lack of support for the proposals.

The Board also noted that the European Financial Reporting Advisory Group (EFRAG) will be presenting a further alternative approach to the IASB's proposed amendments in ED/2012/3 at the IASB's June 2014 ASAF meeting.

The Board directed AASB staff to analyse EFRAG's alternative approach before the Board decides whether to write to the IASB to reiterate its concerns on the proposed amendments in ED/2012/3.

Leases

The Board received an update on recent IASB and FASB tentative decisions in their joint project to develop a Standard on leases. The Board continued to express strong support for the recognition of leases on balance sheet and welcomed the IASB's tentative decision to apply a single model for lessee accounting. However, the Board also expressed concern in relation to a number of the IASB's tentative decisions, in particular, the IASB's tentative decisions to introduce further exceptions to the lease model relating to leases of small assets (i.e. assets that are individually small in value and non-specialised).

Despite these concerns, the Board did not consider that there were any further issues to be raised with the IASB regarding these decisions at this stage and will continue to monitor the progress of the project.

Insurance

The Board received an update on recent tentative decisions made by the IASB on its Insurance Contracts project.

The Board noted the tentative decisions the IASB made at its March 2014 meeting. Other than its concern noted below, the Board strongly supports the tentative decisions made by the IASB concerning



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unlocking the contractual service margin and recognising the effects of changes in the discount rates in other comprehensive income.

The Board decided to write to the IASB concerning the IASB's tentative decision to require disclosure of the difference between the present value of changes in expected cash flows that adjust the contractual service margin in a reporting period when measured using discount rates that applied on initial recognition of insurance contracts, and the present value of changes in expected cash flows that adjust the contractual service margin when measured at current rates, for all portfolios of insurance contracts.

The Board expressed concern that although, based on the IASB's tentative decisions, entities would be able to choose to present changes in the measurement of insurance contract liabilities in profit or loss, the disclosure requirements would still require the discount rate at inception of insurance contracts to be tracked for disclosure purposes. Systems and processes would therefore need to be in place to capture the amount. The AASB also expressed concern that such disclosure is inconsistent with the recognition and measurement accounting policy of an entity that chooses to recognise the amount in profit or loss.

Financial Instruments

Project update

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* in relation to the amendments proposed in IASB ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* and IASB ED/2013/3 *Financial Instruments: Expected Credit Losses*.

At its February 2014 meeting the IASB concluded that it had completed its due process and requested its staff to prepare a ballot draft. The IASB work plan as at 26 March 2014 identifies that it is targeting issuance of a complete IFRS 9, including amendments on classification and measurement and impairment, in Q2 of 2014.

The Board decided there were no further issues that need to be raised with the IASB at this stage.

Application date

Consistent with the IASB's tentative decision in its February 2014 meeting to make IFRS 9 applicable for reporting periods beginning on or after 1 January 2018, the Board decided to amend the application date of AASB 9 to also be applicable from 1 January 2018.

Paragraph 21B of AASB 7 Financial Instruments: Disclosures

At its February 2014 meeting the AASB decided to delete paragraph 21B of AASB 7. Paragraph 21B concerns incorporation of information outside the financial statements by cross-reference. The deletion



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was intended to result in consistency with paragraph B6 of AASB 7, which was previously deleted from AASB 7.

However, the Board noted that the first sentence of paragraph 21B to present disclosures 'in a single note or separate sections in...financial statements' is not repeated in paragraph B6.

On this basis, the Board decided to retain the first sentence of paragraph 21B of AASB 7 and only delete the second and third sentences of paragraph 21B from AASB 7.

Consequential amendments

The Board noted that consequential amendments arising from AASB 9 *Financial Instruments* that had been made to a range of Standards in AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (Part C) needed to be made again in order to be effective, in view of procedural issues with repealed Standards.

The replacement amendments will be made through the next amending Standard, to apply mandatorily to annual reporting periods beginning on or after 1 January 2018 (refer to Application Date above), with early application permitted.

Annual Improvements

The Board received an update on the IASB Annual Improvements 2010-2012 and 2011-2013 Cycles. The Board decided to allow Tier 2 relief in respect of the amendments to AASB 8 *Operating Segments* to be consistent with the existing reduced disclosure requirements in the Standard. The Board also decided to raise again its concerns regarding the definition of a business as part of its response on the IASB's Post-implementation Review of IFRS 3 *Business Combinations*.

IFRS Interpretations Committee

The Board received an update on the 25 March 2014 IFRS Interpretations Committee meeting.

The Board noted the Committee's tentative agenda decision in relation to the issue of IAS 1 *Presentation of Financial Statements* – disclosure requirements relating to assessment of going concern. The Board noted the diversity in views as to whether and when going concern disclosures are required and will monitor any future issues relating to this topic.

The Board also noted the current agenda item in relation to IAS 12 *Income Taxes* – recognition of deferred tax assets for unrealised losses. Although agreeing with the underlying principle giving rise to the proposed amendment, the Board expressed concern in relation to the proposed wording of the amendment. Accordingly, the Board asked AASB staff to raise these concerns with Committee staff.



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IPSASB

The Board received a report on the March 2014 meeting of the IPSASB, particularly noting the following:

- (a) the IPSASB continued discussions on the elements and recognition chapter of its Conceptual Framework and decided not to define 'deferred inflows' and 'deferred outflows';
- (b) the IPSASB continued discussions on the measurement chapter of the Conceptual Framework and confirmed a measurement objective;
- (c) the IPSASB discussed a draft consultation paper on its proposed strategy from 2015 onwards. This consultation document has now been issued by the IPSASB for comment by 31 July 2014; and
- (d) IPSASB projects on social benefits and government business enterprises and public sector specific financial instruments are continuing.

The IPSASB next meets in June 2014.

Emerging Issues

[AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities](#)

The Board noted that the AASB staff had received a number of recent queries relating to the Interpretation, including whether for-profit public sector entities within the scope of the Interpretation are able to claim compliance with IFRSs and whether the scope of the Interpretation should be aligned with that of AASB 1004 *Contributions*. The Board noted that the Board had previously decided to reconsider the Interpretation once staff resources become available. The Board decided that this should commence once the forthcoming Income from Transactions of NFP Entities project (which replaces a substantial part of AASB 1004) is finalised.



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Recently Approved Documents

Since last reported (14 February 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Due Date for Submissions
13 March 2014	AASB ED 248 <i>Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements</i>	19 May 2014
4 April 2014	AASB ED 249 <i>Disclosure Initiative (Proposed amendments to AASB 101)</i>	30 June 2014

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
IASB	<i>IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations</i>	ITC 30	2 May 2014	30 May 2014
IPSASB Governance Review Group	Consultation Paper (CP) <i>The Future Governance of the International Public Sector Accounting Standards Board (IPSASB)</i>			30 April 2014
IPSASB	ED 54 <i>Reporting Service Performance Information</i>			31 May 2014
AASB	ED 248 <i>Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements</i>	ED 248	19 May 2014	
IASB	ED/2014/1 <i>Disclosure Initiative (Proposed amendments to IAS 1)</i>	ED 249	30 June 2014	23 July 2014
IPSASB	IPSASB Strategy Consultation			31 July 2014



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Upcoming meetings and events

10 April 2014	Ken Spencer Memorial Lecture (to be given by Hans Hoogervorst, IASB Chair)
29 April 2014	Discussion Forum on Post-Implementation Review of IFRS 3 and AASB 3 <i>Business Combinations</i>
28-29 May	AASB Meeting

AASB 2014 Scheduled Board Meeting Dates

28-29 May 2014 AASB meeting

At the next Board meeting it is expected the Board will deal with the following items:

28-29 May	<ul style="list-style-type: none">• Service Concession Arrangements• Post Implementation Review of IFRS 3• Leases• Revenue• Insurance• Financial Instruments
16-17 July	
3-4 September	
22-23 October	
17-18 December	