

# AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 168  
24 October 2014

## Welcome to the AASB Action Alert

The AASB Board met in public on 22-23 October 2014. At this meeting the Board made key decisions in relation to:

- **Service Performance Reporting** – made tentative decisions regarding the objective of service performance reporting.
- **Income from Transactions of Not-for-Profit Entities** – made further tentative decisions about the approach for determining when a contract with a customer includes a donation component that should be accounted for separately.

The Board also discussed the following topics:

- **Fair Value Measurement – Unit of Account**
- **Dynamic Risk Management**
- **Recognition of Deferred Tax Assets for Unrealised Losses**
- **Disclosure Initiative**
- **IASB Conceptual Framework Project**
- **Insurance Contracts**
- **IFRS Interpretations Committee Update**
- **Research Centre Update**
- **International Meetings Report**

---

**Contact us: The Australian Accounting Standards Board**, Level 7, 600 Bourke Street, Melbourne, VIC, 3000  
**Phone** (03) 9617 7600 **Fax** (03) 9617 7608 **Email** [standard@asb.gov.au](mailto:standard@asb.gov.au) **Website** [www.aasb.gov.au](http://www.aasb.gov.au)

---

The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions. © Australian Accounting Standards Board, 2014.

---

## Service Performance Reporting

The Board had regard to the objectives articulated in the IPSASB and New Zealand Accounting Standard Board's Service Performance Reporting (SPR) projects and tentatively decided that the objective of SPR should:

- (a) not refer to internal management as a user;
- (b) specifically mention the notion of accountability as a part of decision making;
- (c) refer to the 'delivery of goods and/or services'; and
- (d) refer to 'resources' rather than 'financial information'.

The Board decided that the wording of the objective of SPR would be finalised later in the project but that the tentative decisions provide sufficient direction for staff to continue developing a draft Exposure Draft (ED).

The Board also noted a high-level project plan that anticipates a SPR ED being issued in Q4 2015.

## Income from Transactions of Not-for-Profit Entities

The Board continued its redeliberations of earlier tentative decisions regarding the identification, measurement and recognition of donation components of a not-for-profit (NFP) entity's contracts with its customers. The Board tentatively decided to propose in its forthcoming ED on Income from Transactions of NFP Entities that:

- (a) identifying whether a contract with a customer includes a donation component that should be accounted for separately requires a qualitative assessment, using the available evidence, of whether:
  - (i) the customer intended to provide a donation to the entity; and
  - (ii) the donation is separately identifiable from the goods or services promised in the contract. The Board noted that assessing whether a donation is separately identifiable from the goods or services promised in the contract is similar to the requirement in IFRS 15 *Revenue from Contracts with Customers* to determine whether a good or service promised to a customer is distinct. A NFP-specific factor that would indicate a donation is not separately identifiable is that the donation is contingent on the NFP entity also transferring a good or service to the customer; and

- (b) assessing whether separately identifiable donation components of contracts with customers are material (and therefore need to be accounted for separately) should be made on an individual contract basis without reassessment at an aggregate or portfolio level, to help NFP entities avoid costs that would outweigh the related benefits to users of financial statements.

AASB staff do not anticipate discussing any further issues with the Board prior to publishing the ED. The ED is now targeted for publication in Q1 2015.

### **Fair Value Measurement – Unit of Account**

The Board discussed IASB Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* and formed tentative views on key comments to make in its submission to the IASB in relation to measurement, subject to considering feedback received from constituents.

The Board tentatively agreed with the IASB's proposal that the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole. However, the Board expressed concern as to the relevance of using the quoted price (P) multiplied by the quantity of financial instruments held (Q) [i.e. (P x Q)] without adjustments, in measuring the fair value of such investments.

The Board tentatively decided that the unadjusted amount of P x Q might not reflect the fair value of an investment held for sale as a whole, as it would not take into account the characteristics that market participants would consider in pricing an investment that provides control or significant influence. The Board, however, acknowledged the objective and verifiable nature of quoted prices as Level 1 inputs, consistent with the AASB 13 *Fair Value Measurement* principle of maximising the use of observable inputs.

The Board also tentatively disagreed with the proposal that the recoverable amount of a cash-generating unit that corresponds to a quoted entity measured on the basis of fair value less costs of disposal should be P x Q.

The Board will discuss the remaining issues, including transitional provisions and disclosure requirements, at its December meeting.

### **Dynamic Risk Management**

The Board discussed a draft submission on IASB Discussion Paper DP/2014/1 *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*, which was issued by the AASB as Invitation to Comment ITC 31. The AASB considered feedback from roundtables conducted on

19 August and 4 September 2014 and submissions received from Australian constituents. The Board noted its support for the IASB addressing concerns with macro hedge accounting, and noted that more conceptual issues raised in the DP could be addressed by a longer-term research project, subject to the IASB's priorities for its research agenda.

## **Recognition of Deferred Tax Assets for Unrealised Losses**

The Board discussed IASB Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* and formed tentative views on key comments to make in its submission to the IASB, subject to feedback received from constituents.

The Board decided to express general agreement with the underlying basis for the proposed amendments to IAS 12 *Income Taxes*. In addition, the Board decided to include a general comment in the submission that various aspects of IAS 12, including those relating to the recognition of deferred tax assets for unrealised losses, would benefit from a limited review focussing on clarifying and improving the principles underpinning IAS 12, rather than piecemeal amendments addressing specific practice issues.

The Board decided to express disagreement with the proposed transitional provisions, which would permit, but not require, entities to restate the opening retained earnings (or other component of equity, as appropriate) of the earliest comparative period presented. The Board would prefer the IASB to require prospective application to assets and liabilities existing on the date of initial application of the proposed amendments, including any adjustments within equity on that date.

## **Disclosure Initiative**

The Board received an update on the recent tentative decisions made by the IASB in its Disclosure Initiative.

The Board noted the tentative decisions made at the IASB's September 2014 meeting in relation to the following Disclosure Initiative projects:

- (a) Amendments to IAS 1 *Presentation of Financial Statements*;
- (b) Amendments to IAS 7 *Statement of Cash Flows*: reconciliation of liabilities related to financing activities;
- (c) Amendments to IAS 7: disclosure about restrictions on cash and cash equivalents;
- (d) Materiality, including accounting policy disclosures;

- (e) Current/non-current classification of liabilities; and
- (f) Distinction between a change in accounting policy and a change in accounting estimate.

Board members expressed concern about the IASB's tentative decision that the upcoming Amendments to IAS 7 ED on disclosure about restrictions on cash and cash equivalents should propose an example as the basis for clarifying the principle underpinning restrictions on cash and cash equivalents. The Board would prefer that the text of a standard articulates the principle, rather than relying on an example.

### **IASB Conceptual Framework Project**

The Board received a progress report on the development of an ED for a revised IASB Conceptual Framework, which the IASB has targeted for issue during the first quarter of 2015. The Board reviewed the key comments in its submission and supplementary paper on IASB DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (July 2013), in relation to measurement, capital maintenance and presentation in the statement of comprehensive income [i.e. the distinction between profit or loss and other comprehensive income (OCI)]. The Board considered how it should approach commenting on the IASB ED if it reflects similar proposals to those in the DP. The Board did not consider, at this stage, which concerns would warrant including in its submission on the forthcoming IASB ED.

Board members indicated they stand by the key concerns expressed in the Board's responses on the above-mentioned topics in the IASB DP, including:

- (a) in relation to measurement – Board members disagreed with the IASB's tentative views that a single measurement basis (or model) for all assets and liabilities may not provide the most relevant information for users of financial statements and that a mixed measurement model should therefore be presumed in concept. Rather, Board members considered the IASB Conceptual Framework should identify an ideal concept of wealth and an ideal concept of changes in wealth from non-owner sources (economic income), to underpin the selection of a conceptually ideal measurement model and assist with conceptually identifying the total amount of economic income for a period. Board members considered operating capability is the most useful concept of wealth for financial reporting; and
- (b) in relation to profit or loss and OCI – Board members considered that an adequate conceptual case has not been made for splitting an entity's comprehensive income for a period into profit or loss and OCI, and disagreed in concept with recycling items of OCI into profit or loss.

At future meetings, the Board will continue considering issues expected to arise under the IASB ED.

## Insurance Contracts

The Board received an update on recent tentative decisions made by the IASB on its Insurance Contracts project. The Board requested the staff to reconfirm to IASB members the AASB's support for the IASB's tentative decision made in March 2014 that an entity should make an accounting policy choice to present changes in discount rates either in profit or loss or in OCI and apply that choice by portfolio.

Other than this issue, the Board decided there were no further issues that needed to be raised again with the IASB at this stage.

## IFRS Interpretations Committee Update

The Board received an update on the outcomes of the 16-17 September 2014 IFRS Interpretations Committee (the Committee) meeting and recent AASB staff responses to Committee staff outreach requests.

Board members expressed concern as to the wording provided by the Committee in the tentative agenda decision on the accounting for costs arising from a levy raised on an item of property, plant and equipment. In relation to the basis for not including the issue on the Committee's agenda, the Board decided to write to the Committee suggesting the final agenda decision:

- (a) removes the wording that suggests the issue raised by the submitters is an isolated example; and
- (b) instead, notes the issue is too broad for the Committee to address.

## Research Centre Update

The Board noted progress on research projects and related matters since the Board's September 2014 meeting, including the following:

- (a) AASB staff response to IASB staff regarding the IASB's research project on Business Combinations Under Common Control;
- (b) AASB staff presented a comparison of IAS 26 *Retirement Benefit Plans* and AASB 1056 *Superannuation Entities* to seek views of those attending the recent International Forum of Accounting Standard Setters (IFASS) meeting on whether the IASB should include a review of IAS 26 on its work program;
- (c) AASB staff are monitoring developments in regard to the Government's proposed Emission Reduction Fund to position the Board to address any financial reporting implications;

- (d) continuing research on potential directions for a differential reporting framework; and
- (e) AASB staff response to IPSASB staff concerning the fatal flaw draft of the IPSASB's Conceptual Framework.

## International Meetings Report

### **IPSASB**

The Board received a report on the September 2014 meeting of the IPSASB. The Board particularly noted that the IPSASB:

- (a) had finalised and approved its Conceptual Framework (CF), which is expected to be issued in October or November 2014. Of specific note was that the IPSASB CF includes a measurement objective; deferred inflows and deferred outflows have not been defined as separate elements but are now referred to as 'other resources' and 'other obligations'; and within the Presentation chapter, the IPSASB has maintained the proposed distinction between 'display' and 'disclosure';
- (b) discussed its future governance arrangements, noting feedback on a consultation paper issued by The IPSASB Governance Review Group that supported establishing a separate monitoring and oversight body for the IPSASB under the auspices of the International Federation of Accountants;
- (c) reviewed responses to ED 54 *Reporting Service Performance Information*, most of which supported the approach taken in the ED. The IPSASB confirmed the definitions in the ED and that the Recommended Practice Guideline (RPG) should not include illustrative case studies. A draft RPG is planned to be considered at the December 2014 IPSASB meeting;
- (d) reviewed changes to draft International Public Sector Accounting Standards (IPSASs) arising from EDs 48–52 on Accounting for Interests in Other Entities. Final drafts of those IPSASs are planned to be considered for approval at the December 2014 IPSASB meeting;
- (e) reviewed changes to a draft IPSAS *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, in particular the provision of transitional relief for interests in other entities and in preparing consolidated financial statements. A revised draft is planned to be considered for approval at the December 2014 IPSASB meeting;
- (f) discussed public sector combinations and decided that the primary consideration in classifying a combination is whether the entities were either under common control or not under common control (rather than whether the combination was an amalgamation or an acquisition);

- (g) discussed its project on Public Sector Financial Instruments, in particular the definition of monetary gold; and
- (h) discussed its project on Social Benefits, specifically the social contract and social insurance approaches.

### **ASAF**

The Board received a report on the IASB's Accounting Standards Advisory Forum (ASAF) meeting held in September 2014, in which AASB representatives participated.

The Board noted the topics discussed at the meeting included Leases, Discount Rates, IFRS 3 *Business Combinations* Post Implementation Review, the IASB Conceptual Framework, Insurance Contracts, the Disclosure Initiative and Equity/Liabilities. Members expressed concern about the support from other jurisdictions for reintroducing amortisation of goodwill.

### **AOSSG**

The Board noted that the Asian-Oceanian Standard-Setters Group (AOSSG) met in London on 28 September 2014. The Board noted the topics discussed included the Conceptual Framework, Insurance Contracts, Accounting for Dynamic Risk Management and IFRS 15.

### **WSS and IFASS**

The Board noted that AASB representatives participated in the IASB's World Standard-Setters (WSS) meeting and the IFASS meeting between 29 September and 1 October 2014. AASB staff also presented a paper on AASB 1056 at the IFASS meeting.

### **IASB Research Forum**

The Board noted that AASB representatives participated in the inaugural IASB Research Forum in conjunction with *Accounting and Business Research* journal on the topic of the IASB Conceptual Framework. The Forum was held at the Saïd Business School in Oxford on 2 October 2014. It was noted that Ann Tarca, AASB Board member, was instrumental in helping to organise the Forum and moderated a panel session at the event.



## AASB Action Alert

Issue No: 168  
24 October 2014

### Recently Approved Documents

Since last reported (5 September 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
18 September 2014	ED 254 <i>Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value</i>	12 December 2014
19 September 2014	ITC 32 <i>Reporting the Financial Effects of Rate Regulation</i>	15 December 2014
29 September 2014	Basis for Conclusions to AASB 123 <i>Borrowing Costs</i>	–
1 October 2014	Erratum – Investment Entities	1 January 2014
1 October 2014	ED 255 <i>Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>	24 November 2014
6 October 2014	ED 256 <i>Removal of Cross-References from Financial Statements to Other Documents</i>	28 November 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	Exposure Draft ED/2014/3 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	ED 253	20 November 2014	18 December 2014
IPSASB	Consultation Paper <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i>	–	–	31 December 2014
AASB	Exposure Draft ED 255 <i>Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>	ED 255	24 November 2014	–

## AASB Action Alert

Issue No: 168  
24 October 2014

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
AASB	Exposure Draft ED 256 <i>Removal of Cross-References from Financial Statements to Other Documents</i>	ED 256	28 November 2014	–
IASB	ED/2014/4 <i>Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value</i>	ED 254	12 December 2014	16 January 2015
IASB	DP/2014/2 <i>Reporting the Financial Effects of Rate Regulation</i>	ITC 32	15 December 2014	15 January 2015

### Upcoming meetings and events

26-27 November 2014	Asian-Oceanian Standard-Setters Group (AOSSG)
4-5 December 2014	Accounting Standards Advisory Forum (ASAF)
8-11 December 2014	International Public Sector Accounting Standards Board (IPSASB)
17-18 December 2014	AASB Meeting

### AASB 2014 – 2015 Scheduled Board Meeting Dates

### 17-18 December 2014 AASB meeting

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

17-18 December 2014	<ul style="list-style-type: none"> <li>• Service Performance Reporting</li> <li>• Service Concession Arrangements</li> <li>• Fair Value Measurement – Unit of Account</li> <li>• Recognition of Deferred Tax Assets for Unrealised Losses</li> <li>• Rate Regulation</li> <li>• IPSASB Consultation Paper <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i></li> <li>• IASB Conceptual Framework Project</li> <li>• Disclosure Initiative</li> <li>• Insurance Contracts</li> <li>• Leases</li> <li>• International Meetings Report</li> </ul>
11-12 February 2015	
15-16 April 2015	
27-28 May 2015	
8-9 July 2015	
2-3 September 2015	
21-22 October 2015	