Australian Government
Australian Accounting Standards Board

AASB Action Alert

From the Australian Accounting Standards Board

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Welcome to the AASB Action Alert

The AASB Board met in public on 27-28 May 2015. At the meeting the Board made key decisions in relation to:

- **Recognition of Residual Value for Infrastructure Assets**
- **Depreciated Replacement Cost as a Measure of Value in Use**
- **Reporting Service Performance Information**

The Board also discussed the following topics:

- **Australian Financial Reporting Framework**
- **Reduced Disclosure Requirements (Tier 2)**
- **Classification of Liabilities**
- **IFRS 15 Deferral**
- **Process for Consultation on AASB Work Plan**
- **Calibrating the Value and Impairment of Intangible Assets**
- **International Projects Update**
- **Research Update**
- **Regulatory Update**
- **Reissue of IFRS-Equivalent Pronouncements**
- **International Valuation Standards Council Exposure Draft**

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Recognition of Residual Value for Infrastructure Assets

The Board confirmed its previously stated view that residual value reflects consideration receivable for an asset at the end of its useful life to the entity, and accordingly would not include cost savings from the re-use of in-situ materials. The Board considered the comment letters received and observed that many respondents to the Tentative Agenda Decision supported reflecting the expected cost savings from continued use of part of an asset as part of the residual value of the asset. The Board noted that respondents who were preparers generally regarded this to be a practical approach that aligns financial reporting with asset management practices. The Board also noted that it had received feedback supportive of the Board's views expressed in its Tentative Agenda Decision.

The Board discussed at length whether there was a supportable argument that the ordinary meaning of the words included in the definition of residual value in AASB 116 *Property, Plant and Equipment* could be read to include expected cost savings from the reuse of part of an asset. The Board, consistent with previous practice, concluded that the ordinary meaning of words needs to be read in the context of the relevant accounting standard definition. It was also noted that the definition of residual value must be read in conjunction with the definition of useful life. The Board decided that the inclusion of expected cost savings from the continued use of part of an asset as part of the asset's residual value was inappropriate for the following reasons:

(a) disposal involves loss of control of the asset by the entity at the end of its useful life to the entity – the relocation of an asset into another asset or location does not involve any loss of control of the asset by the entity; and

(b) where an entity has control of an asset and intends to continue to consume the future economic benefits embodied in an asset through use, the asset cannot be regarded as having reached the end of its useful life to the entity. In the instance of public sector assets held for their current service potential, the useful life is unlikely to be less than the time all of the service potential in that asset is substantially consumed, at which time no cost savings from reuse of the asset would remain available to the entity.

The Board also noted that a residual value that represents a significant portion of an asset's value is indicative that the entity should consider whether an asset that will not be sold before the end of its useful life to the entity has been appropriately componentised. In response to comments received, the Board highlighted that the major inspections example in paragraph 14 of AASB 116 envisages assets being componentised into non-physically distinct components. The Board noted that the component may reflect a percentage of the asset rather than the physical materials comprising the asset.

The Board was conscious of feedback received highlighting potential difficulties and costs that will be incurred by entities on applying the Board's conclusions above. The Board discussed whether to develop an exemption from the requirements of AASB 116 for not-for-profit (NFP) public sector entities. The Board decided not to develop such an exemption as it considered that this would not be consistent with its transaction-neutrality policy, noting that some private sector entities, for example mining companies, may control similar infrastructure assets such as roads. In addition, some NFP public sector entities are already componentising such assets and neither the New Zealand Accounting Standards Board nor the International Public Sector Accounting Standards Board had provided such an exemption in their equivalent accounting standards (which define residual value similarly to AASB 116). Similarly, the Board decided not to develop any transitional provisions in respect of this project, noting that the consideration of the appropriate accounting for any adjustment that may be necessary is a matter for the entity. The Board noted various shortcut methods may be considered by impacted entities, subject to materiality, including using the residual value as the separate component and using blended depreciation rates for the different components.

The Board also considered feedback suggesting that there may be material differences between amounts determined under current practice and the amounts determined in accordance with the view expressed in the Board's Tentative Agenda Decision, particularly where the residual value as a percentage of asset value is high. Accordingly, the wording of its Tentative Agenda Decision will be amended.

The Board also decided, on the basis of the outreach it had conducted to date, including making inquiries of practice in other countries, that it did not have a case for raising the issue to the IFRS Interpretations Committee.

The Board directed staff to prepare a revised final Agenda Decision and to circulate it to Board members for approval out of session.

The Board also noted that staff are preparing a staff article on the topic that is targeted for issue by the end of Q3 2015.

DRC as a Measure of Value in Use

The Board agreed to issue an ED proposing to remove the requirement to use depreciated replacement cost (DRC) as a measure of value in use where a NFP entity is not dependent on the asset's ability to generate net cash inflows. The Board noted that the definition of depreciated replacement cost in AASB 136 *Impairment of Assets* and the guidance on current replacement cost in AASB 13 *Fair Value Measurement* (paragraphs B8 and B9) are expected to result in values materially the same, and in practice valuers treat them interchangeably for the specialised assets being considered.

These observations led the Board to the tentative view that the references in AASB 136 to DRC as a measure of value in use are not needed and may cause confusion, particularly for entities already fair valuing non-financial assets. A Basis for Conclusions will explain the rationale for the ED.

Reporting Service Performance Information

The Board is targeting issue of an ED on Reporting Service Performance Information by NFP entities in July 2015.

The Board made the following key tentative decisions:

(a) the project should remain as 'Reporting Service Performance Information' and not be expanded to 'Performance Reporting';

(b) to confirm its previous decision that the ED will apply to whole of government (WoG) and general government sector (GGS) financial statements but that application guidance will be developed to articulate that at a WoG and GGS level, service performance information would only be required for the key service performance objectives of the government;

(c) the ED should continue to have an external focus and internal performance is only relevant for disclosure where it may impact an entity's external performance;

(d) the ED should propose requiring entities to report on key risks faced in achieving service performance objectives but, to avoid boilerplate and extensive reporting, risks disclosed must be linked to the requirement to report on service performance objectives (paragraph 61(a)) and other factors that have affected the entity's ability to influence outcomes (paragraph 62(d)). The Board also tentatively decided to include application guidance to address this issue;

(e) the Preface and Basis for Conclusions for the ED should include a discussion on the AASB's mandate to develop the proposals; and

(f) the Preface should also provide a discussion on the implications of the proposals on entities regulated by the Australian Charities and Not-for-profits Commission.

Click here for the Reporting Service Performance Information project summary on the AASB website.

Australian Financial Reporting Framework

The Board supported the project to reconsider the Australian financial reporting framework in terms of which entities should prepare financial statements and the content of those financial statements. The overall aim of the project is to clarify and simplify the financial reporting framework, so that objective criteria determine the entities required to prepare general purpose financial statements. The project will cover both corporate and non-corporate entities, in conjunction with government policymakers and regulators.

The Board noted the project plan, which encompasses the work to reconsider the reduced disclosure requirements for Tier 2 entities (see separate item) and raises the possibility of a third tier of reporting requirements.

Reduced Disclosure Requirements (Tier 2)

The Board tentatively decided that there is a need to change the existing RDR principles, given feedback on the take-up of RDR and the challenges in implementing the principles. The Board discussed proposed replacement principles for determining RDR, their use and how they might be improved. The Board noted that in the context of identifying disclosures that satisfy user needs, the following disclosures are likely to be relevant for all types of users:

(a) financial performance, financial position and cash flows [this could be achieved by presenting the relevant statements];

(b) liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) [could be achieved by providing information about short-term cash flows and obligations, debt repayment terms, commitments and contingencies, whether or not recognised as liabilities, including tax obligations]. In a NFP entity, the emphasis for liquidity disclosures is more likely to be on funding than debt levels;

(c) the entity's accounting policy choices and any changes in those policies;

(d) transactions and other events that are significant to the entity in its operations, including subsequent events that significantly affect assessments of future cash flows; and

(e) risks to which the entity is exposed (for example, related party transactions, assets used as security for debt, impairments and estimates and judgements).

The Board also noted that accountability should be incorporated as a key disclosure. The Board tentatively decided that some general principles should be developed to precede the key disclosure areas.

The Board tentatively decided that the key principles and key disclosure areas should be combined with relevant specified disclosures. Application of the principles and specified disclosures should be subject to materiality considerations.

The Board decided that the methodology used should be flexible enough to accommodate the deletion for Tier 2 entities of disclosures required of Tier 1 entities and any future decisions by the Board to rewrite disclosure requirements for Tier 2 entities. The Board considered it was premature for it to determine how this would be achieved.

The Board decided that, in future, an ED proposing RDR requirements for a new standard will be based on the final International Financial Reporting Standard, rather than the ED preceding the Standard.

The Board decided to progress the RDR project as a joint project with the New Zealand Accounting Standards Board, noting the policy requirement of the *Joint Statement of Intent: Single Economic Market Outcomes* signed by the Prime Ministers of Australia and New Zealand.

Classification of Liabilities

The Board tentatively decided its submission to the IASB on Exposure Draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)* [incorporated into AASB ED 259] should:

(a) note that although the AASB is supportive of the IASB's efforts to clarify issues surrounding the classification of liabilities as current or non-current. The proposals as currently drafted do not achieve the intended clarity;

(b) agree with the proposed deletion of the word 'unconditional' from paragraph 69(d) of IAS 1 *Presentation of Financial Statements*. However, clarification is required as to what a right is. For example, the IASB conclusions noted in paragraph BC4 addressing rights at the end of the reporting period could be included in the body of any final Standard;

(c) note that the proposed changes to paragraph 72R(a) result in ambiguity in relation to the classification of loans under an existing loan facility when the loans are held with a consortium and/or there is a second counterparty included in the loan facility and that it is not clear how these relate to requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and AASB 9 *Financial Instruments*; and

(d) express disagreement with the proposed transition requirements. The Board considers the proposed amendments should be applied prospectively on the basis that in determining the classification of a liability an entity needs to have an understanding of the terms and conditions at that point in time. The Board considers that retrospective application would require an entity to use hindsight. The Board also decided to note in its submission that it views the proposals in the nature of a change in classification and accordingly that the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should not be specifically referred to.

IFRS 15 Deferral

The Board tentatively decided to express general agreement with the IASB Exposure Draft ED/2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)* [incorporated into AASB ED 263] proposal to extend the effective date of IFRS 15 *Revenue from Contracts with Customers*, particularly for entities that have complex transactions.

However, the Board also tentatively decided to express concerns that amending the effective date, which was established after careful consideration and consultation with its constituents, may undermine the IASB's due process. The Board also noted that this could set a precedent for constituents seeking amendments to effective dates of other Standards that may be considered difficult to implement.

Process for Consultation on AASB Work Plan

The Board discussed its process for consultation on the AASB work plan and decided to undertake a formal consultation process later in 2015, in conjunction with the expected IASB Agenda Consultation.

Calibrating the Value and Impairment of Intangible Assets

Researchers Baljit Sidhu and John Roberts from the University of New South Wales attended the meeting to discuss an academic research project they were undertaking on brand valuation and impairment. The researchers were seeking input from Board Members regarding value and impairment of intangible assets.

The research aligns to the AASB's research strategy in that it relates to an IASB longer-term project on intangible assets / R&D activities. In addition, the research may also inform thoughts relating to the IASB short/medium term research project relating to goodwill.

International Projects Update

The Board received an update on recent international meetings held by the IASB, IPSASB, IFRS Interpretations Committee, Revenue TRG and the Impairment ITG. The Board decided that there were no issues to raise at this stage in relation to these meetings.

Research Update

The Board concurred with the draft research strategy that identified four key areas: the Australian financial reporting framework; conceptual framework; IFRS post-implementation review; and enhancing the AASB's international alliances.

The strategy will be publicised on the AASB website to gain feedback regarding the key areas and major steps to be taken.

Regulatory Update

The Board noted the publication of a report[1] on discount rates for Australian employee benefit liability valuation that would provide entities with a high-quality corporate bond rate yield curve.

Reissue of IFRS-Equivalent Pronouncements

The Board noted it will be revising the look and feel of its standards, using IFRSs as the source documents, with minimal change. As a result the application paragraphs identifying who should be adopting the standards will be moved to a separate standard, and the effective date will move to an appendix in each standard.

International Valuation Standards Council Exposure Draft

The Board decided to make a submission to the IVSC in relation to Exposure Draft ED *Proposed Amendments to the International Valuation Standards*.

Recently Approved Documents

Since last reported (16 April 2015), the Board has approved the following Standards and Exposure Drafts:

1 http://au.milliman.com/uploadedFiles/insight/2015/g100-report.pdf

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
30 April 2015	AASB Exposure Draft ED 260 *Income of Not-for-Profit Entities*	14 August 2015
5 May 2015	AASB Exposure Draft ED 261 *Service Concession Arrangements: Grantor*	27 July 2015
5 May 2015	AASB Exposure Draft ED 262 *Fair Value Disclosures of Not-for-Profit Public Sector Entities*	4 June 2015
21 May 2015	AASB Exposure Draft ED 263 *Effective Date of AASB 15* Revenue from Contracts with Customers	19 June 2015

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
AASB	Exposure Draft ED 260 *Income of Not-for-Profit Entities*	ED 260	14 August 2015	-
AASB	Exposure Draft ED 261 *Service Concession Arrangements: Grantor*	ED 261	27 July 2015	-
AASB	Exposure Draft ED 262 *Fair Value Disclosures of Not-for-Profit Public Sector Entities*	ED 262	4 June 2015	-
IASB	ED/2015/2 *Effective Date of IFRS 15* Revenue from Contracts with Customers	ED 263	19 June 2015	3 July 2015

Upcoming meetings and events	
16 June 2015	AASB Not-for-Profit and Public Sector Education Session and Roundtable – Melbourne
24 June 2015	AASB Not-for-Profit and Public Sector Education Session and Roundtable – Canberra
25 June 2015	AASB Not-for-Profit and Public Sector Education Session and Roundtable – Brisbane
26 June 2015	AASB Not-for-Profit and Public Sector Education Session and Roundtable – Sydney

Upcoming meetings and events	
23-26 June 2015	International Public Sector Accounting Standards Board (IPSASB)
8-9 July 2015	AASB Meeting
16-17 July 2015	Accounting Standards Advisory Forum (ASAF)

AASB 2015 Scheduled Board Meeting Dates	**8-9 July 2015 AASB meeting** At the next Board meeting it is expected the Board will deal with the following items:
8-9 July 2015	• Conceptual Framework • Reduced Disclosure Requirements Principles • International Projects Update
2-3 September 2015	
21-22 October 2015	
2-3 December 2015	