



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 175
23 October 2015

Welcome to the AASB Action Alert

The AASB Board met in public on 21-22 October 2015. At the meeting the Board made key decisions in relation to:

- **Income of Not-for-Profit Entities**
- **Reduced Disclosure Requirements (Tier 2) Principles**
- **Service Concession Arrangements: Grantor**

The Board also discussed the following topics:

- **Conceptual Framework**
- **Financial Reporting by Not-for-Profit Entities**
- **Income Tax Equivalents**
- **IFRS Foundation Review**
- **AASB Agenda Consultation**
- **International Meetings Update**
- **International Projects Update**
- **Financial Reporting Framework**
- **Clarifications to IFRS 15 *Revenue from Contracts with Customers***
- **Scope Paragraphs for AASB 8 and AASB 133**
- **Deferral of Effective Date of AASB 15**
- **Research Update**
- **Strategic Plan Update**

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Income of Not-for-Profit Entities

The Board continued its consideration of the feedback on Exposure Draft (ED) ED 260 *Income of Not-for-Profit Entities* and a draft project plan. The Board noted the majority of comment letter concerns related to the enforceability and ‘sufficiently specific’ characteristics as these determine whether income from grants can be deferred. The Board tentatively decided:

- (a) to reconfirm its decision to exclude not-for-profit (NFP) entities from AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. The Board’s decision reflected:
 - (i) the importance and quantum of grants and donations to the NFP sector relative to the for-profit sector;
 - (ii) recent international standards developments on this issue not being consistent with the requirements of IAS 20 (including *IFRS for SMEs* adopting a performance obligation approach, US and UK developments);
 - (iii) IAS 20 only covering a subset of transactions relevant to the NFP public sector; and
 - (iv) consistency with the Conceptual Framework;
- (b) to clarify the proposed Implementation Guidance to AASB 15 *Revenue from Contracts with Customers* in describing goods and services; and
- (c) to clarify the proposed guidance in relation to enforceability, giving particular emphasis to:
 - (i) consequences of non-performance; and
 - (ii) substance of the arrangement, rather than whether it is documented or what it is called.

The Board agreed to consider further at the next Board meeting whether enforcement can occur through other than legal means (e.g. constructive obligations), and if so how this should be addressed.

The Board also noted that examples provided by respondents could be used to further examine the topics of bequests in perpetuity, including control of the asset, and whether there are sufficiently specific terms to create a performance obligation.



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The Board asked staff to bring back to the next Board meeting draft wording and examples for Board consideration to assist in finalising their views in relation to these issues.

The Board deferred discussion of 'sufficiently specific' to the next Board meeting. The Board also noted the importance of having a Standard finalised in sufficient time for grantors to implement before the underlying Standard, AASB 15, applies (i.e. for periods beginning on or after 1 January 2018).

Reduced Disclosure Requirements (Tier 2) Principles

The Board tentatively decided:

- (a) to propose the effective date of the revised RDR framework to be annual reporting periods beginning on or after 1 January 2018;
- (b) that disclosure concessions may apply for AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to Tier 2 entities. The Board also noted that this tentative decision may result in less disclosure than for special purpose financial statements for these standards;
- (c) Tier 1 and Tier 2 entities should have the same presentation requirements in relation to the face of the primary financial statements;
- (d) to amend the description of presentation in the Tier 2 Disclosure Principles to better distinguish presentation from disclosure;
- (e) the paragraph proposed to be at the beginning of the RDR Appendix of each Standard addressing accounting policies, significant judgements and sources of estimation and uncertainty that are addressed in AASB 101 and AASB 108 should specifically note that, notwithstanding the disclosure concessions in the Standard, entities will still need to consider the application of AASB 101 and AASB 108 in regard to paragraphs in Standards addressing these issues;
- (f) that, in principle, early application of the revised RDR framework be permitted, and AASB 101, AASB 107 and AASB 108 be applied at the same time an entity first applies a revised RDR Standard; and
- (g) to not include any transitional provisions in the ED, but to ask a specific question in relation to this issue in the ED.



Service Concession Arrangements: Grantor

The Board tentatively decided that, consistent with the proposals in ED 261 *Service Concession Arrangements: Grantor*, the final Standard on service concession arrangements should apply to all public sector grantors in both the for-profit and NFP sectors. The Board also discussed whether a for-profit public sector entity complying with the Standard could make an explicit and unreserved statement that its financial statements comply with IFRS.

The Board directed staff to undertake further outreach to better understand the reasons why IFRS compliance is important to for-profit grantors and to identify the current circumstances where the Board has permitted for-profit public sector entities to not comply with IFRS and how ED 260 might impact the Board's strategy to enable for-profit entities to state IFRS compliance.. The Board also directed staff to discuss with the IFRS Interpretations Committee staff the likelihood and timeframe of any possible response from the Committee if the Board sought confirmation from the Committee that the ED 260 proposals are consistent with IFRS, either on the narrow issue of application of IFRS 15 *Revenue from Contract with Customers*, or a broader range of issues. The Board directed staff to bring the findings for consideration at a future Board meeting.

The Board approved field testing the requirements of ED 261, noting that a longer timeline may be required to accommodate the testing process.

Conceptual Framework

The Board continued its consideration of IASB Exposure Draft ED/2015/4 *Conceptual Framework for Financial Reporting* and ED/2015/4 *Updating References to the Conceptual Framework*. The Board's deliberations concentrated on the liability and measurement proposals of ED/2015/3. As part of its discussion, the Board had regard to submissions and other feedback received to date on AASB ED 264 *Conceptual Framework for Financial Reporting* and ED 265 *Updating References to the Conceptual Framework*.

The Board tentatively agreed with the positions taken in its draft comment letter, and decided also to:

- (a) specifically comment on the need for constructive obligations to be more clearly captured by the liability definition and present obligation. The Board supported constructive obligations being limited to enforceable obligations (that is, defined narrowly) in a Conceptual Framework, and noted that different decisions could be made for particular obligations at a standards level;
- (b) include examples to illustrate the Board's concerns pertaining to the liability definition;



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- (c) observe that it would be useful for the Conceptual Framework to develop some principles for identifying an appropriate unit of account. Board members disagreed with paragraph 4.58, which states that the unit of account is selected after considering how recognition and measurement would apply. Board members considered the converse to be a more appropriate approach; and
- (d) include an observation in the AASB submission about the relationship between the 'primary users' identified in the Conceptual Framework proposals and the Disclosure Initiative project.

The Board discussed the measurement proposals in ED/2015/3 and confirmed its previous decision for the AASB submission to support the Conceptual Framework aspiring to current value as a single measurement basis. The Board observed that a different measurement basis may be appropriate, at a standards level, for some assets and liabilities (and related income or expense), having regard to the qualitative characteristics of useful financial information and cost considerations.

Financial Reporting by Not-for-Profit Entities

The Board received a presentation from Elka Johansson, a PhD student from Deakin University on financial reporting by NFP entities. The presentation indicated that despite empirical research that users require service performance reporting, NFP entities do not appear to be voluntarily providing this information.

Income Tax Equivalents

The Board decided to finalise an Agenda Decision in relation to *Accounting for Income Tax of Public Sector Entities* without amendment of the tentative agenda decision.

IFRS Foundation Review

The Board tentatively decided the preliminary comments to include in its submission to the IFRS Foundation in response to the Foundation's Request for Views – *Trustees' Review of Structure and Effectiveness: Issues for the Review*. The Board expressed general agreement with the proposals in the review, but noted concerns in relation to:

- (a) the operation and effectiveness of Transition Resource Groups and the IFRS Interpretations Committee; and
- (b) the overall geographical distribution of Trustees and IASB members.



AASB Agenda Consultation

The Board agreed to finalise the wording of the AASB Agenda Consultation Invitation to Comment. In finalising the wording, the Board requested staff to incorporate further detail in relation to potential future research projects.

International Meetings Update

The Board received an update on the international meetings that the AASB Chair and staff had attended since the previous board meeting.

International Projects Update

IFRS Interpretations Committee

The Board decided to write to the Committee expressing the view that a tentative agenda decision on a number of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* issues appears inappropriate were the Committee has decided to delay consideration of those issues until the IASB's 2015 Agenda Consultation has been finalised.

The Board also directed staff to raise with IFRS Interpretation Committee staff comments about the drafting of the Committee's tentative agenda decision on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding the unit of account when an impairment loss is allocated to non-current assets within a disposal group.

IPSASB

The Board received an update from IPSASB member Tim Youngberry in relation to the recent IPSASB meeting. Tim Youngberry informed the Board that Mike Blake has been appointed as a member of the IPSASB, for which the Board offered their congratulations.

IASB

The Board noted some staff concerns in relation to the recent IASB meeting. The Board noted staff concerns about the IASB's proposed IFRS 4 *Insurance Contracts* amendments that would allow insurers to defer application of IFRS 9 until 2021 (deferral approach), or if an insurer has already applied IFRS 9 that insurer could remove from profit or loss some accounting mismatches and temporary volatility that could occur before the revised IFRS 4 is implemented (overlay approach). However, given these proposals will be subject to a future Exposure Draft (ED), the Board decided to express these concerns



more formally in its submission on that future ED. Accordingly, the Board decided not to take any action at this stage.

The Board also noted staff concerns about the IASB's deliberations on discount rates relating to present value measurement. The Board considered that a broader conceptual measurement project would better address this issue and decided to raise this point in its submission on the IASB's agenda consultation. Accordingly, the Board decided not to take any action at this stage.

Financial Reporting Framework

Project Plan

The Board noted an updated plan for 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.

Benchmarking Research Report

The Board suggested that the draft benchmarking report on thresholds for public lodgement of financial statements (for for-profit private sector entities) better identify how it fits into the broader financial reporting framework project. The Board also requested staff to investigate the feasibility of including non-corporate for-profit entities within the scope of the report.

Consultation Paper Outline

The Board also commented on a draft outline for a consultation paper on the corporate reporting framework that is to be developed in conjunction with the Commonwealth Treasury.

Clarifications to IFRS 15 Revenue from Contracts with Customers

The Board decided to express general agreement with the IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15* in its comment letter to the IASB. However, the Board also decided to express the view that, as a matter of policy, it did not support the IASB making amendments to a Standard before the effective date and that the Joint Transition Resource Group for Revenue Recognition be wound up.



Scope Paragraphs for AASB 8 and AASB 133

The Board decided to amend AASB 8 *Operating Segments* and AASB 133 *Earnings per Share* to insert scope paragraphs as they appear in the corresponding IFRSs (paragraph 2 in each case). As those scope paragraphs are presently included in AASB 1057 *Application of Australian Accounting Standards* there will be no impact as a result of the change.

Deferral of Effective Date of AASB 15

Consistent with the IASB, the Board deferred the application date of AASB 15 *Revenue from Contracts with Customers* from annual reporting periods beginning on or after 1 January 2017 to 1 January 2018 (AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).

Research Update

External Reporting Projects

The Board discussed the factors that it might take into account in deciding whether to address projects outside conventional external financial reporting, such as evidence of unmet user needs. Such projects might, for example, be carried out in conjunction with other policymakers.

The Board decided that the forthcoming AASB Agenda Consultation should address the prospect of the Board adding external reporting topics to its research agenda.

Post-Implementation Review of the Adoption of IFRSs in Australia

The Board noted the project plan for the post-implementation review of the adoption of IFRSs in Australia and clarified that the expected outcomes of the project include an assessment of the appropriateness of adopting IFRS and the Board's implementation through a transaction-neutral approach. The Board also noted the intention to consult with academics in respect of their research on IFRS adoption and to conduct focus group sessions in due course.

Strategic Plan Update

The Board noted that a number of key performance indicators for the AASB's strategic directions had been achieved, and the majority of those remaining were on track.



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IPSASB ED 57 *Impairment of Revalued Assets*

The Board noted Australian constituents had not raised issues regarding impairment of a single asset in a class causing significant revaluation issues. Accordingly, the IPSASB ED 57 proposals are unlikely to be relevant in Australia.

Recently Approved Documents

Since last reported (4 September 2015), no Standards or Exposure Drafts have been approved by the Board other than the approval of AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15 at this meeting*.

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	ED/2015/6 <i>Clarifications to IFRS 15</i>	ED 267	Closed	28 October 2015
AASB	<i>Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities</i>	ED 269	16 November 2015	-
IASB	ED/2015/3 <i>Conceptual Framework for Financial Reporting</i>	ED 264	5 November 2015	25 November 2015
IASB	ED/2015/4 <i>Updating References to the Conceptual Framework</i> (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)	ED 265	5 November 2015	25 November 2015
IPSASB	Exposure Draft 56 <i>The Applicability of IPSASs</i>	-	-	30 November 2015
IASB	<i>Request for Views 2015 Agenda Consultation</i>	ITC 33	9 November 2015	31 December 2015
IPSASB	Consultation Paper <i>Recognition and Measurement of Social Benefits</i>	-	-	31 January 2016



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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
AASB	<i>Reporting Service Performance Information</i>	ED 270	12 February 2016	-
IPSASB	Exposure Draft 57 <i>Impairment of Revalued Assets</i>	-	15 December 2015	15 January 2016
IPSASB	Exposure Draft 58 <i>Improvements to IPSASs 2015</i>	-	-	15 January 2016

Upcoming meetings and events

2-3 December	AASB Meeting
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AASB 2015-2016 Scheduled Board Meeting Dates	2-3 December 2015 AASB meeting
2-3 December 2015	<p>At the next Board meeting it is expected the Board will deal with the following items:</p> <ul style="list-style-type: none"> Leases Service Concession Arrangements: Grantor Income of Not-for-Profit Entities Research Update IASB Agenda Consultation
23-24 February 2016	
19-20 April 2016	
21-22 June 2016	
30-31 August 2016	
18-19 October 2016	
13-14 December 2016	