



Project:	n/a	Meeting	November 2018 (M168)
Topic:	Documents open for comment by other organisations	Agenda Item:	17.1
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		Decision-Making:	medium
		Project Status:	n/a

Objective of this paper

- The objective of this paper is to:
 - inform the Board about upcoming consultative documents to be issued by other international standard setting bodies; and
 - ask the Board to decide which consultative documents to provide feedback/comments on.

Reasons for bringing this paper to the Board

- The Board's strategy is to influence the work of the International Accounting Standards Board (IASB), International Public Sector Accounting Standards Board (IPSASB) and other relevant international organisations with a goal of developing a single set of international external reporting Standards.
- Historically, the Board has decided on which consultation documents to comment on based on factors like the relevance and importance of the consultation to the AASB's projects and strategies, the potential impact of the proposals on Australian constituents and priority of projects as decided by the Board. This agenda paper will assist the Board in prioritising and deciding on which consultation documents it should comment on.

Summary of staff recommendations

- Staff recommend that the Board agrees not to comment on the upcoming international consultative documents as outlined below
 - the upcoming IASB exposure draft on costs considered in assessing whether a contract is onerous (expected to be issued by the IASB in December 2018); and
 - the upcoming IPSASB exposure draft on Collective and Individual Services and Emergency Relief (expected to be issued by the IPSASB in January 2019).

Table 1: Upcoming consultative documents for Board consideration

Originating organisation	Document	Expected release	AOSSG input	Staff recommendation for AASB approach
IASB	Exposure Draft: Costs Considered in]Assessing Whether a Contract is Onerous	Dec '18	Leading ¹	<p>Staff recommend that the Board does not comment on this exposure draft, unless Australian constituents raise any significant issues during the open for comment period, as:</p> <ul style="list-style-type: none"> • the amendments are narrow-scope • Australian constituents have not raised this to the AASB as an issue; and • staff have not identified any significant concerns on the tentative decisions made by the IASB to date in relation to this project. <p>When the consultative document is published by the IASB, it will be published in Australia as an AASB Exposure Draft, seeking comments from Australian constituents. If significant comments are raised by Australian constituents, staff will bring it to the board for further consideration on whether to comment on the IASB ED.</p> <p>For further information on this project, see Appendix A.</p>
IPSASB	Exposure Draft: Collective and Individual Services and Emergency Relief	Jan '19	N/A	<p>Staff recommend that the Board:</p> <ul style="list-style-type: none"> • does not comment to the IPSASB; and • directs Australian constituents to comment on the ED directly to the IPSASB, rather than inviting comments to the AASB. <p>This is because Staff do not expect the Exposure Draft to be complex or controversial, and as such do not consider that this should take priority over the Board's other projects.</p> <p>For further information on this project, see Appendix B.</p>

Questions to the Board

1. Does the Board agree to not comment on the following upcoming exposure drafts:

(a) the upcoming IASB exposure draft on costs considered in assessing whether a contract is onerous; and

(b) the upcoming IPSASB exposure draft on Collective and Individual Services and Emergency Relief.

2. Does the Board have any other comments on the documents open for comment?

Appendix A: Details on the IASB's Costs considered in assessing whether a contract is onerous

- 5 Following the supersedure of IAS 11 *Construction Contracts* by IFRS 15 *Revenue from Contracts with Customers*, the IFRS Interpretations Committee received a question to clarify the meaning of the term 'unavoidable costs' in the definition of an onerous contract contained in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- 6 IAS 11 contained specific requirements on the costs an entity includes and does not include in identifying, recognising and measuring an onerous contract liability of contracts that were in its scope.
- 7 In contrast, IFRS 15 does not include requirements for identifying and measuring onerous contract liabilities. Instead, as noted in paragraphs 5(g) of IAS 37 and BC296 of IFRS 15, an entity applies paragraphs 66–69 of IAS 37 in assessing whether a contract to which it applies IFRS 15 is onerous.
- 8 The IFRS IC noted two possible ways of reading 'unavoidable costs'² in paragraph 68 of IAS 37, and originally proposed an agenda decision setting this out. However, respondents to the tentative agenda decision raised concern, and the IFRS IC ultimately decided to recommend that narrow-scope Standard-setting was undertaken to eliminate one of the possible ways of reading the requirements. The IASB has agreed that the proposed amendments would:
- (a) specify that the 'cost of fulfilling' a contract in paragraph 68 of IAS 37 comprises the 'costs that relate directly to the contract';
 - (b) provide examples of costs that do, and do not, relate directly to a contract to provide goods or services;
 - (c) make no new requirements for entities to disclose information about onerous contracts;
 - (d) make specific transition requirements for entities already reporting using IFRS Standards. Such entities would be required to apply a 'modified retrospective' approach whereby they would apply the proposed amendments to contracts existing at the date of initial application—the beginning of the annual reporting period in which the entity first applies the amendments; and
 - (e) make no specific transition requirements for entities adopting IFRS Standards for the first time.
- 9 The IASB ED on the above proposals is expected to be issued in December 2018.
- 10 Given the narrow-scope and clarifying nature of the amendments, Staff do not recommend the Board prioritise this project by way of providing a comment to the IASB, unless Australian constituents raise significant concerns about the proposals.

² In June 2017, the Committee noted two possible ways of reading 'unavoidable costs' in paragraph 68 of IAS 37:
(a) unavoidable costs are the costs that an entity cannot avoid because it has the contract. Such costs would include, for example, an allocation of overhead costs if those costs are incurred for activities required to complete the contract.
(b) unavoidable costs are the costs that an entity would avoid if it did not have the contract. Such costs are often referred to as 'incremental costs'

- 11 The IASB has noted that it will undertake a separate project to understand whether amendments should be made to IAS 37 more broadly.
- 12 See the [IASB project website](#) for more information.

Appendix B: Details on the IPSASB's Collective and Individual Services and Emergency Relief project

- 13 The IPSASB is expecting to finalise a small Exposure Draft at its December 2018 meeting, which would be issued in January 2019 for public comment.
- 14 The Exposure Draft is likely to be titled "Collective and Individual Services and Emergency Relief". It will propose the addition of application guidance to IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.
- 15 Collective services are services provided simultaneously to all members of the community, such as street lighting and defence services. Individual services were previously called "universally accessible services" and cover goods and services provided to individuals and households to address societal needs, such as education and health care. The ED will propose that no liability arises for the public sector entity prior to the delivery of the goods or services.
- 16 Emergency relief covers cash transfers, goods and services provided by public sector entities in emergency circumstances. The ED will propose that entities need to consider whether government announcements or action gives rise to a provision or a contingent liability. This might depend on whether all individuals or households in an affected area will receive emergency relief or whether eligibility criteria would apply.
- 17 Collective and individual services and emergency relief fall outside the scope of the IPSASB's forthcoming Standard on Social Benefits, which will be limited to cash transfers to individuals and households that meet eligibility criteria in order to mitigate social risks.
- 18 Staff consider that the proposals in the ED are not likely to be controversial. Accordingly, Staff recommend that the Board does not publish an Australian ED for comment nor provide a submission to the IPSASB.
- 19 The comment period end date hasn't been determined as yet, but is likely to be towards the middle of 2019.