

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 183
28 March 2017

Welcome to the AASB Action Alert

The AASB Board met in public on 27 March 2017. At the meeting the Board made key decisions in relation to:

- [Related Party Disclosures](#)
- [Service Concession Arrangements: Grantors](#)

The Board also discussed the following topics:

- [Financial Instruments with Symmetric Prepayment Options](#)
- [ED 276 Annual Improvements to Australian Accounting Standards 2015–2017 Cycle](#)

Related Party Disclosures – AASB Agenda Decision

The Board decided to finalise its Agenda Decision addressing the materiality of key management personnel related party transactions of not-for-profit public sector entities. In response to constituent feedback, the Board decided to revise the wording of the agenda decision to:

- clarify the objective of general purpose financial statements and AASB 124 *Related Party Disclosures*, including acknowledging that the objective of the disclosures is not for the purposes of assessing governance or probity;
- acknowledge that ‘citizen’ type transactions, similar to public services provider/taxpayer transactions, are unlikely to be qualitatively material for disclosure in general purpose financial statements;
- comment on the relationship between materiality and the steps an entity would normally consider when collecting information about its key management personnel related party transactions;

Contact us: The Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007
Phone (03) 9617 7600 **Email** standard@asb.gov.au **Website** www.asb.gov.au

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- (d) acknowledge that transactions conducted on terms and conditions no different to those applicable to the general public are likely to be assessed as being qualitatively immaterial to the general purpose financial statements, but could be quantitatively material. The Board also decided to revise the wording of the Tentative Agenda Decision to avoid suggesting that normal procurement processes will always be immaterial, as 'normal' processes may be of varying standard; and
- (e) avoid characterising transactions involving grants as being similar to public service provider/taxpayer transactions.

The Board will continue to liaise with the AUASB and a final Agenda Decision will be issued in April.

In addition, the Board decided not to add a project on AASB 124 to its work program at this time.

However, the Board will continue to monitor the implementation of AASB 124, including exploring whether further work is necessary.

Service Concession Arrangements: Grantors

The Board tentatively decided to respond to the comments received from constituents in response to the public Fatal-Flaw Review version of the draft Standard AASB 10XY *Service Concession Arrangements: Grantors* with clarifications as set out below. The Board will review revisions to the draft AASB 10XY through a pre-Ballot Draft version, without further public exposure. The clarifications are as follows:

- (a) in determining whether a grantor controls or regulates a service concession asset where a third party regulates the pricing of the services of the asset, the control or regulation of the pricing is only one factor to be considered – the grantor must also control or regulate the services the operator must provide with the asset and to whom it must provide them, and control any significant residual interest in the asset at the end of the term of the arrangement;
- (b) AASB 10XY would override AASB 138 *Intangible Assets* in requiring a grantor to recognise an existing (but previously unrecognised) intangible asset that is used in a service concession arrangement, measured at current replacement cost. After initial recognition, the intangible service concession asset would be accounted for in accordance with AASB 138, except that upon ceasing to be a service concession asset, where control is retained, the intangible asset will continue to be recognised (ie AASB 138 recognition criteria will not be reapplied);

- (c) judgement is required in determining whether an arrangement provides public services, particularly where an asset may be used for public services or for other activities (eg car parks and student accommodation); and
- (d) in the Illustrative Example for the grant of the right to the operator model (Example 2) – upgrades and replacement of major components of a service concession asset should be accounted for as a separate asset and recognised when the upgrade or replacement is constructed, with the grantor recognising revenue for the upgrade or replacement on a systematic basis, such as a straight-line or component basis.

The Board also decided AASB 10XY should:

- (a) retain the requirements for the recognition of a service concession arrangement involving a grant of a right to the operator model;
- (b) address the IFRS Interpretations Committee’s recent decisions on IFRIC Interpretation 12 *Service Concession Arrangements* on the accounting for an operator’s payments to the grantor and variable payments made by an operator in a service concession arrangement. The Board agreed the accounting for variable payments forming part of the financial liability are accounted for using AASB 9 *Financial Instruments*, not AASB 16 *Leases*, as a service concession arrangement involves the acquisition of an asset, not a lease;
- (c) provide examples of arrangements that are clearly a privatisation, a lease, a construction contract, and an outsourcing contract to illustrate:
 - (i) a lease provides a right of use to the lessee, whereas a service concession provides only a right of access to the operator;
 - (ii) a privatisation generally only limits pricing, whereas a service concession limits pricing, use of the asset and the residual interest (if significant);
 - (iii) a construction contract generally has minimal other services provided by the constructor, whereas a service concession generally has managerial services such as maintenance and upgrade services provided by the operator; and
 - (iv) an outsourcing contract provides goods or services wholly to those in the public sector to assist in delivering services, whereas a service concession provides goods or services to the general public or a subset thereof.

The Board discussed whether a whole-of-life asset should be described as an asset that will be used in a service concession arrangement for its 'economic life' or for its 'entire useful life'. This will be addressed further by the Board out of session.

Financial Instruments with Symmetric Prepayment Options

The Board decided that it would not make a detailed submission on the proposals in the forthcoming IASB ED on symmetric prepayment options. However, given the broad support observed from domestic outreach performed on this issue, the Board decided to formally express its support for the IASB's efforts in response to the forthcoming ED.

ED 276 Annual Improvements to Australian Accounting Standards 2015–2017 Cycle

The Board observed no Australian specific issues with the proposals in IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015–2017 Cycle* had been raised by constituents. The Board agreed not to make a submission to the IASB on the ED.

Recently Approved Documents

Since last reported (15 December 2016), the Board has approved the following Standards, Interpretations and Exposure Drafts:

Date Approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
13 February 2017	AASB 2017-1 <i>Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments</i>	1 January 2018 for for-profit entities and 1 January 2019 for not-for-profit entities
13 February 2017	AASB 2017-2 <i>Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle</i>	1 January 2017
13 February 2017	AASB Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

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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 276 <i>Annual Improvements to Australian Accounting Standards 2015–2017 Cycle</i>	ED 276	8 March 2017	12 April 2017
AASB	Exposure Draft ED 277 <i>Reduced Disclosure Requirements for Tier 2 Entities</i>	ED 277	26 May 2017	–

Upcoming meetings and events

June 2017	International Public Sector Accounting Standards Board (IPSASB)
July 2017	Accounting Standards Advisory Forum (ASAF)

AASB 2017 Scheduled Board Meeting Dates	1-2 May 2017 AASB meeting
	At the next Board meeting it is expected the Board will deal with the following items:
1-2 May 2017	<ul style="list-style-type: none"> Agenda consultation
27-28 June 2017	<ul style="list-style-type: none"> Insurance contracts
15 August 2017	<ul style="list-style-type: none"> Reduced disclosure requirements
10-11 October 2017	
12-13 December 2017	