



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 189
15 February 2018

Welcome to the AASB Action Alert

The AASB Board met in public on 14 February 2018. At the meeting the Board made key decisions in relation to:

[Revised Conceptual Framework – Reporting Entity/Special Purpose Reporting](#)

[Australian Financial Reporting Framework](#)

[Amendments to Standards](#)

[Social Benefits](#)

[Standard-Setting Frameworks](#)

The Board also discussed the following topics:

[Presentation – Bill Edge, Chairman, FRC](#)

[Insurance Transition Resource Group](#)

[Tax Transparency Code Disclosure](#)

[Corporate Collective Investment Vehicles](#)

Revised Conceptual Framework – Reporting Entity/Special Purpose Reporting

The Board decided that the Consultation Paper on making the IASB's revised Conceptual Framework applicable in Australia should:

- (a) emphasise that the ability of entities to prepare special purpose financial statements would be removed once the revised IASB *Conceptual Framework* is adopted in Australia, as it has a different notion of 'reporting entity';

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AASB Action Alert

Issue No: 189
15 February 2018

- (b) explain that the self-assessment of whether an entity is a reporting entity in accordance with Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* is not working well at the individual entity level as there is inconsistency in how entities self-assess and so does not provide a level playing field for all entities;
- (c) highlight that the ideal long-term approach to removing special purpose financial statements is for regulators to amend legislation to ensure that only those entities that need to prepare general purpose financial statements should be required to publicly lodge financial statements;
- (d) propose a short-term approach of having two Conceptual Frameworks on issue to maintain IFRS compliance for publicly accountable for-profit entities (ie listed and disclosing entities) while retaining special purpose financial statements on an interim basis;
- (e) propose a longer-term approach of removing the current reporting entity concept, maintaining one Conceptual Framework and providing two tiers of general purpose financial reporting requirements (Tier 1 and Tier 2). The Consultation Paper should identify two options for Tier 2 for consideration at this stage: the existing reduced disclosure requirements (RDR), and a new option representing the requirements in ASIC Regulatory Guide RG85 with some additional disclosures. The new option should comprise the full recognition, measurement, consolidation and equity method of accounting requirements in the Standards, and the disclosure requirements in AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 15 *Revenue from Contracts with Customers*, AASB 124 *Related Party Disclosures* and AASB 136 *Impairment of Assets*. In addition, service performance reporting, fundraising and administration cost disclosures could be made mandatory for not-for-profit private sector entities;
- (f) elaborate that having two Conceptual Frameworks is not a feasible option in the longer term because entities preparing financial statements in accordance with Australian Accounting Standards are applying a single set of accounting standards;
- (g) clarify that having different sets of accounting standards for different sectors (and therefore different Conceptual Frameworks) would not be consistent with the feedback from the Board's review of IFRS adoption in Australia that maintaining consistency between sectors is important;



AASB Action Alert

Issue No: 189
15 February 2018

- (h) conclude that the *IFRS for SMEs* is not a viable Tier 2 option based on its advantages and disadvantages, such as inconsistency with the requirements in ASIC's Regulatory Guide RG85 and harmonisation with New Zealand;
- (i) clarify that additional tiers of reporting requirements, for example Tier 3 and Tier 4, are not explored in the Consultation Paper because the IASB developed only two tiers based on the notion of public accountability, and to add more tiers would require consensus between regulators and key stakeholders on the criteria for applying those tiers. The Board's project on the Australian Financial Reporting Framework will promote discussion on this via its consultation documents;
- (j) have a comment period of three months for Part 2 on the longer-term approach, with one month for Part 1 (the short-term approach). The Consultation Paper also should include Specific Matters for Comment on the following:
 - (i) what transitional relief on the requirement to prepare consolidated financial statements would be appropriate; and
 - (ii) do not-for-profit entities need a longer transition period in respect of changes to reporting requirements under the longer-term approach?; and
- (k) note that, in addition, recent IASB amendments to the definition of 'public accountability' in AASB 1053 *Application of Tiers of Australian Accounting Standards* are proposed to retain IFRS compliance for for-profit entities.

The Consultation Paper is expected to be issued in March 2018.

Australian Financial Reporting Framework

The Board approved the scope and overall approach of the Research Report and the Discussion Paper addressing financial reporting requirements for public sector entities. The Board discussed the options to be presented in the Discussion Paper for revised public sector reporting requirements. The draft publications will be further considered by the Board before they are finalised for publication.



Amendments to Standards

The Board made AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*, effective for annual reporting periods beginning on or after 1 January 2019. The Standard is based on the Ballot Draft version and will be published shortly.

The Standard makes amendments in relation to previously held interests in a joint operation (amending AASB 3 *Business Combinations* and AASB 11 *Joint Arrangements*), income tax consequences of payments on financial instruments classified as equity (AASB 112 *Income Taxes*) and borrowing costs eligible for capitalisation (AASB 123 *Borrowing Costs*).

Social Benefits

The Board discussed major issues addressed in the IPSASB Exposure Draft (ED) 63 *Social Benefits* and decided to develop a submission based on the following views:

- (a) the definitions of ‘social benefits’ and ‘social risks’, which determine the scope of the ED, appear to be difficult to apply and might create an artificial boundary between arrangements that may be economically similar in substance. It might be more appropriate to address the accounting for social benefits, universally accessible services and collective services in a single project;
- (b) the IPSASB should consider requiring the application of either an appropriate insurance Standard or IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to social benefits that are similar to insurance – the insurance approach would be consistent with the AASB Discussion Paper on the application of AASB 17 *Insurance Contracts* in the public sector;
- (c) the Board generally supports the Alternative View presented in ED 63 (which would reflect a liability when the obligation arises), rather than the Obligating Event approach (which would reflect a liability only when all eligibility criteria, including staying alive, are met). However, the Board acknowledges practical concerns in recognising a potentially large liability, without also recognising the offsetting right to tax to fund the liability. Further consideration will be given to how to extend the obligating event approach without giving a misleading representation of an entity’s overall financial position; and
- (d) the Board supported mandatory disclosures of the long-term impact and sustainability of social benefits as an integral part of a public sector entity’s financial statements.



AASB Action Alert

Issue No: 189
15 February 2018

The Board will consider a draft submission to the IPSASB at its next meeting, with further research and consultation with Australian stakeholders.

Standard-Setting Frameworks

The Board considered the submissions received from stakeholders in respect of Invitation to Comment ITC 37 *The AASB's Standard-Setting Frameworks for For-Profit and Not-for-Profit Entities*. The Board decided to finalise the frameworks out of session, with amendments to address in particular:

- (a) the objective and purpose of the Standard-setting frameworks;
- (b) how the Standards relate to special purpose financial reporting; and
- (c) external reporting beyond financial reporting.

The Board took the view that 'not-for-profit' should be retained as a significant term for accounting purposes, but decided to consider at a later time amending the definition and guidance through monitoring the New Zealand Accounting Standards Board's project on its definition of 'public benefit entity'.

Presentation – Bill Edge, Chairman, FRC

The Chairman of the Financial Reporting Council, Bill Edge, discussed with the Board the work of the FRC and major projects of the Board, including the Australian Financial Reporting Framework project.

Insurance Transition Resource Group

The Board discussed the objectives and report to date of the activities of the Board's AASB 17 *Insurance Contracts* Transition Resource Group. No decisions were made.

Tax Transparency Code Disclosure

The Board discussed an overview of corporate reports providing disclosures in accordance with the Tax Transparency Code (TTC), including the Board's draft guidance on Part A of the TTC. The Board intends to finalise the draft guidance in May 2018. The Board will consider further whether to develop guidance on Part B of the TTC.



AASB Action Alert

Issue No: 189
15 February 2018

Corporate Collective Investment Vehicles

The Board discussed potential financial reporting issues in relation to corporate collective investment vehicles and their sub-funds. Further draft Bills are anticipated to be issued by the Government for consultation.

Recently Approved Documents

Since last reported (13 December 2017), the Board has approved the following Standards, Exposure Drafts or other documents:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
14 February 2018	AASB 2018-1 <i>Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle</i>	1 January 2019

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
IPSASB	Invitation to Comment <i>IPSASB Exposure Draft Social Benefits</i>	ITC 38	15 February 2018	31 March 2018
AASB	Invitation to Comment <i>Draft Appendix to the Tax Transparency Code</i>	–	28 February 2018	–
AASB	Discussion Paper <i>Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities</i>	–	28 February 2018	–
AASB	Exposure Draft ED 283 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors</i>	ED 283	31 March 2018	–
AASB	Exposure Draft ED 284 <i>Recent Standards – Reduced Disclosure Requirements</i>	ED 284	31 March 2018	–



AASB Action Alert

Issue No: 189
15 February 2018

AASB 2018 Scheduled Board Meeting Dates	23 March 2018 AASB meeting At the next Board meeting, it is expected the Board will address the following items:
23 March 2018	Conceptual framework (reporting entity/special purpose reporting)
10 – 11 May 2018	Financial reporting framework
14 – 15 June 2018	Social benefits
3 – 5 September 2018	
13 – 14 November 2018	