



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 195
14 November 2018

Welcome to the AASB Action Alert

The AASB Board met in public in Sydney on 13 November 2018. At the meeting the Board made key decisions in relation to:

[Income of NFP Entities – Peppercorn Leases](#)

[Conceptual Framework – For-Profit Entities \(ITC 39 Phase 1\)](#)

[Conceptual Framework – Approach to NFP Entities \(ITC 39 Phase 2\)](#)

The Board also discussed the following topics

[Financial Instruments with Characteristics of Equity](#)

[Amendments to Standards – Definition of a Business](#)

[ITC 39 Phase 2 – Summary of Feedback from Phase 2 Outreach](#)

[Extractive Activities](#)

[Insurance Contracts](#)

[International Documents Open for Comment](#)

Income of NFP Entities – Peppercorn Leases

The Board has decided to issue an Exposure Draft proposing a temporary option for NFP lessees to not initially fair value a right of use (ROU) asset arising from leases that have significantly below-market terms when AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* become effective from 1 January 2019 (e.g. 30 June 2020 year-ends). Given the prevalence of restrictions on ROU assets in the NFP sector, the Board prefers the interpretative issues arising from fair valuing such leases to be resolved as part of the fair value measurement project. The Board also considered that the financial

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reporting thresholds of NFP private sector entities are likely to be revised as a result of the ACNC Legislative Review recommendations, and it is possible that entities at the lower level of the reporting threshold might not be required in future to apply the requirements of AASB 16 and AASB 1058. The optional relief is expected to remain in place until further guidance has been developed to assist NFP entities in fair valuing such right-of-use assets and the financial reporting requirements for private sector not-for-profit entities have been finalised. Entities choosing the temporary relief would value the ROU asset at the present value of the payments required.

The ED will propose that an entity applying this temporary option must include specific disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from leases with significantly below-market terms and conditions.

When the temporary relief is removed, the Board would consider whether to provide transitional relief for existing leases with significantly below-market terms and conditions.

Conceptual Framework – For-Profit Entities (ITC 39 Phase 1)

The Board decided to proceed with Phase 1 of ITC 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, as follows:

- (a) Phase 1 will be limited to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards, and to other for-profit entities that elect to apply the revised *Conceptual Framework for Financial Reporting* (RCF). The intention of Phase 1 is to allow entities to maintain compliance with IFRS Standards, not to extend requirements for entities to prepare general purpose financial statements (GPFS). For example, Phase 1 will permit for-profit public sector entities to continue to state compliance with IFRS Standards where they elect to do so, but will not otherwise require public sector entities to adopt the RCF at this stage.
- (b) The limited scope of Phase 1 also means that the existing requirements continue in place for entities such as trusts that are required by their constitutional documents (rather than legislation) to comply with Standards. The Financial Reporting Framework project will reconsider the requirements for other for-profit entities not covered by Phase 1, after further research and outreach.
- (c) Some other types of entities were identified in submissions as potentially affected by Phase 1, such as internal registered managed investment schemes, unlisted entities that may be operating



in over-the-counter markets and entities undertaking crowd-sourced funding. The Board decided that these entities should be considered through a public accountability sub-project, which will consider in accordance with *The AASB's For-Profit Standard Setting Framework* whether there should be any changes to who is deemed to have public accountability (an Australian decision), whether exemptions from the public accountability definition would be in the Australian public interest and whether additional guidance should be included to assist in interpreting the public accountability definition in an Australian context.

- (d) Some respondents to ITC 39 Phase 1 were concerned about having two conceptual frameworks in place at the same time. The Board noted the majority of respondents who expressed a view agreed with the short term approach, and reconfirmed its previous decision to have two conceptual frameworks for an interim period.
- (e) Whilst the substance of the Board's decisions are consistent with the proposals in ITC 39, the Board decided that the new approach to highlighting which entities apply which CF and scope restrictions warranted issuing a limited-scope Exposure Draft of the RCF and the consequential amendments to Standards and Interpretations. The ED will incorporate a proposed amending Standard AASB 2018-X *Amendments to Australian Accounting Standards – References to the Conceptual Framework*. The draft AASB 2018-X will include the Basis for Conclusions to explain the proposals and the Board's rationale in finalising Phase 1.

The Exposure Draft will be issued in January 2019 with a two-month comment period, with requested feedback limited to any fatal-flaw issues.

Conceptual Framework – Approach to NFP Entities (ITC 39 Phase 2)

The Board welcomed ACNC Commissioner Dr Gary Johns to the meeting. The Board and Dr Johns agreed on the importance of consistent and appropriate external reporting for NFP private sector entities (including non-ACNC regulated entities). The Board will begin consulting with a wide range of stakeholders on the reporting framework options for the NFP private sector.

Financial Instruments with Characteristics of Equity

The Board decided that the AASB comment letter to the IASB's Discussion Paper IASB/DP/1 *Financial Instruments with Characteristics of Equity* (FICE) will state the proposed principles in the DP:

- (a) would give rise to new practical issues and outcomes that are counter-intuitive to the substance of some financial instruments;
- (b) do not address adequately some of the practical issues that are common in Australia; and



- (c) are inconsistent with the definition of a liability and related guidance in the revised *Conceptual Framework for Financial Reporting*.

Although the Board supports the IASB trying to develop robust principles for the classification of financial liabilities and equity, the Board considered that pursuing the FICE project based on the current proposals is not worthwhile for the above reasons.

The Board also decided to provide the IASB with examples of practical issues that have not been sufficiently addressed in the IASB's DP and the extent of these issues in Australia.

Amendments to Standards – Definition of a Business

The Board did not raise any issues regarding the recent amendments by the IASB of the definition of a business. The Board will vote on the Australian equivalent to the IFRS Standard *Definition of a Business* out-of-session.

ITC 39 Phase 2 – Summary of Feedback from Phase 2 Outreach

The Board noted feedback received during the Board's September roundtables on enhancing financial reporting and replacing special purpose financial statements for for-profit entities. A summary of this feedback will be available on the AASB's website shortly.

Extractive Activities

The Board did not have any specific feedback on the IASB's terms of reference requesting input from national standard-setters on its Extractive Activities project. The Board agreed to share feedback received during local outreach with the IASB.

Insurance Contracts

The Board welcomed Anne Driver, Chair of the AASB Transition Resource Group for AASB 17 *Insurance Contracts* to the meeting. The Board noted her update regarding AASB 17/IFRS 17 *Insurance Contracts* implementation in Australia and worldwide. No decisions were made.

International Documents Open for Comment

The Board decided not to comment on the following forthcoming international consultation documents:

- (a) the IASB Exposure Draft addressing costs considered in assessing whether a contract is onerous; and
- (b) the IPSASB Exposure Draft addressing collective and individual services and emergency relief.



AASB Action Alert

Issue No: 194
5 September 2018

The Board agreed to reconsider making submissions should any significant domestic issues be raised during the respective exposure periods.

Recently Approved Documents

Since last reported (5 September 2018), the Board has approved the following Standards, Exposure Drafts or other documents.

Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
31 October 2018	AASB 2018-5 <i>Amendments to Australian Accounting Standards – Deferral of AASB 1059</i>	1 January 2019

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, the IFRS Interpretations Committee, the IFRS Foundation or the IPSASB are published on the AASB website.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Invitation to Comment ITC 40 <i>Financial Instruments with Characteristics of Equity</i>	ITC 40	26 November 2018	7 January 2019
AASB	Invitation to Comment ITC 41 <i>The AASB's Approach to International Public Sector Accounting Standards</i>	ITC 41	30 November 2018	–

AASB 2019 Scheduled Board Meeting Dates	February 2019 AASB meeting
	At the next Board meeting, it is expected the Board will address the following items:
19 February 2019	Conceptual Framework – public accountability
30 April – 1 May 2019	Conceptual Framework – Phase 2 submissions
14 June 2019	Impairment of goodwill – research
17 – 18 September 2019	ITC 41 Approach to IPSASB Standards – submissions
12 – 13 November 2019	