Australian Government
Australian Accounting Standards Board

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 197
2 May 2019

Welcome to the AASB Action Alert

The AASB Board met in public in Melbourne on 30 April 2019. At the meeting the Board made key decisions in relation to:

AASB 1054 – Disclosure of Compliance with R&M in SPFS

Removal of SPFS for FP Entities – Transitional Relief and Timelines

AASB 1059 *Service Concession Arrangements: Grantors* – Implementation

Fair Value Measurement for Public Sector Entities

The Board also discussed the following topics:

Financial Statements of Non-Disclosing Entities Lodging with ASIC

International Documents Open for Comment

AASB 1054 – Disclosure of Compliance with R&M in SPFS

The Board decided to issue an Exposure Draft proposing for-profit entities and not-for-profit (NFP) entities within the scope of AASB 1054 *Australian Additional Disclosures* that prepare special purpose financial statements (SPFS) disclose:

- whether they have subsidiaries and prepared consolidated financial statements, and if not consolidated, why not;
- if they have investments in an associate or a joint venture, whether they have been accounted for in a manner consistent with AASB 128 *Investments in Associates and Joint Ventures*;
- whether the entity has or has not complied with all recognition and measurement (R&M) requirements of Australian Accounting Standards (AAS) in preparing the SPFS; and
- if the entity did not comply with all of the R&M requirements, sufficient information so that the users of the SPFS clearly understand the accounting policies.

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The entities affected are those:

- lodging financial reports with ASIC (under Chapter 2M.3 of the *Corporations Act 2001*); or
- required by the *Australian Charities and Not-for-profits Commission Regulation 2013* or other legislation to comply with AASB 1054.

The Board noted that this proposal would not require entities to change their accounting policies, but to simply state whether or not their policies comply with all the recognition and measurement requirements in AAS. Based on the evidence that users for SPSFs exist, feedback from those users (particularly regarding the importance of comparability) and academic research findings, the Board considered this interim measure – until the broader project on removing SPFS for for-profit entities is completed – is urgently needed to provide more transparency to SPFS users of publicly lodged financial statements.

Given the Board's concerns, and evidence regarding inappropriate application of the reporting entity concept, the Board was not persuaded the users of publicly lodged SPFS could demand any information they need. Research into the reporting practices of for-profit entities preparing SPFS shows that for 14% a user could not clearly identify whether recognition and measurement requirements had or had not been complied with.

The Exposure Draft is expected to be issued in June with a comment period of 45 days. The Board intends to issue the final Standard before the end of December 2019. However, given the clear stakeholder expectations of trust and transparency from directors, the Board encourages early voluntary disclosure for 30 June year-end financial statements.

Removal of SPFS for FP Entities – Transitional Relief and Timelines

In order to facilitate an earlier effective date for the removal of for-profit SPFS, of reporting periods beginning on or after 1 July 2020, the Board decided to propose an amendment to AASB 1 *First-Time Adoption of Australian Accounting Standards* so that an entity preparing general purpose financial statements (GPFS) under Tier 2 requirements for the first time need not restate its comparative information. This amendment would apply regardless of whether an entity had a legislative or other requirement to comply with AAS in prior periods. Instead of full comparative information, the amendment to AASB 1 would require entities adopting this option to provide the following information in addition to the other requirements of AASB 1 for Tier 2 entities:

(a) present two statements of financial position in accordance with AAS, as at:

  (i) the beginning of the reporting period; and

  (ii) the reporting date;

(b) disclose its last SPFS statement of financial position as at the comparative period reporting date in the notes, with a description of the adjustments made for the statement of financial position at the beginning of the reporting period to be AAS compliant;

(c) present two statements of profit or loss and other comprehensive income as follows:

  (i) for the reporting period, in accordance with AAS; and

  (ii) for the comparative period, as presented in its last SPFS (ie not necessarily AAS compliant), but labelled clearly where the information is not AAS compliant. The Board noted that comparative information in the statement of profit or loss and other comprehensive income is of particular interest to users and decided that requiring some previous SPFS information would provide a pragmatic approach to providing comparative information and facilitating transition in a timely manner; and

(d) disclose in the notes a description of the adjustments that would have been required to make the comparative SPFS statement of profit or loss and other comprehensive income noted in (c)(ii) compliant with AAS (similar to the requirement of AASB 1, paragraph 22).

The Board noted that relief from the restatement of comparative information would be beneficial as it would reduce costs to preparers whilst also providing a consistent, comparable, enforceable and transparent reporting framework earlier. Earlier application would be permitted and encouraged, particularly given the increase in the large proprietary company thresholds from 1 July 2019.

The Board considered other options for transitional relief, including allowing entities that are subsidiaries to recognise amounts based on information provided in reporting packs to their parent entity for consolidation purposes, and allowing entities to immediately write off ‘deemed goodwill’ calculated in accordance with AASB 1 Appendix C. The Board also observed that the primary concerns raised by constituents were related to consolidation and equity accounting, and noted that the findings from the research addressing compliance with recognition and measurement (R&M) requirements by ASIC-lodging entities found that 6% of entities did not apply all R&M requirements only due to not applying AASB 112 *Income Taxes* fully. However, the Board also noted that feedback to Invitation to Comment ITC 39 *Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* had not raised AASB 112 as being problematic for transition purposes.

The Board considered there were insufficient compelling reasons or evidence to warrant any transitional relief for these other options, particularly noting that:

(a) the revision through the Corporations Regulations of the thresholds for distinguishing large and small proprietary companies has reduced the population of large proprietary companies by approximately 2,797 (around a third of the original population), leaving approximately 3,986 more economically significant companies as large proprietary companies. The Board also noted the Explanatory Statement accompanying the revision of the thresholds outlined the expectation that more economically significant entities are expected to have users that are dependent on the entity's GPFS, and also that the average access rates for the remaining population are significantly higher than for those entities that would now be small proprietary companies rather than large proprietary companies;

(b) the Board had not received feedback that the population of small foreign-controlled companies or unlisted public companies warranted transitional relief in addition to that provided in AASB 1; and

(c) the Board has performed extensive outreach and asked for specific information on transitional relief that might be needed via formal comments on ITC 39, roundtables in capital cities and over 150 meetings with individual entities, and has not received any compelling evidence or suggestions identifying specific issues that need transitional relief in addition to that provided in AASB 1 or to be proposed in the ED.

Timelines

The Board tentatively decided the following comment periods for forthcoming Exposure Drafts (ED):

(a) for the ED proposing to remove the ability for entities to prepare SPFS in accordance with AAS – a comment period of 90 days. In making this consideration, the Board noted that the proposals would not be significantly different to those already considered by stakeholders in ITC 39, and hence an extended comment period did not appear to be needed; and

(b) for the ED proposing to revise the Tier 2 reduced disclosure framework – a comment period of 120 days.

AASB 1059 *Service* Concession *Arrangements: Grantors* – Implementation

The Board decided to propose the following amendments to AASB 1059 to address implementation issues raised by stakeholders:

(a) change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured by the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset;

(b) modify AASB 16 *Leases* to provide a practical expedient to grantors of service concession arrangements so that AASB 16 would not need to be applied to assets that would be recognised as service concession assets under AASB 1059 (mandatory for financial periods beginning on or after 1 January 2020, with earlier application permitted). Grantors would be permitted to continue their existing accounting for service concession assets until AASB 1059 was applied; and

(c) editorial amendments to paragraphs IG10 and IG13 in the implementation guidance.

The Board decided not to propose amending the date of initial application, which is the beginning of the earliest comparative reporting period presented in the financial statements when AASB 1059 is first applied.

A Fatal-Flaw Review version of the amending Standard is expected to be issued shortly with a comment period of 30 days.

Fair Value Measurement for Public Sector Entities

The Board decided to include the following proposals in an Exposure Draft, proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities:

(a) modify AASB 13 to state that for assets held for their service capacity and not primarily for their ability to generate net cash inflows, the approach to determine their fair value should be current replacement cost. The Board is of the view that when such assets are legally restricted as to their use or the prices that can be charged for goods or services derived from them, their fair values should not be written down to a market selling price or present value of net cash inflows that is less than their current replacement cost. When such assets can be bought and sold for prices incorporating the effect of the restriction, their current replacement cost would reflect the observable market selling price. This proposed modification is expected to reduce uncertainty and diversity in practice regarding how to apply the principles in AASB 13 and would not necessarily change practice for some not-for-profit public sector entities;

(b) include an illustrative example to support the application of AASB 13 paragraph 28(b) regarding legally permissible uses of an asset. The illustrative example would demonstrate that, if a government can rescind a law or regulation restricting the use (or pricing of the use of) an asset and does not require parliamentary approval for that rescission, the fair value measurement of that asset should assume that the restriction would not pass to the market participant buyer. This is the case even if an entity controlled by that government (eg a government agency) is unable itself to rescind the restriction and therefore is required to assume in its own financial statements that the restriction would pass to the market participant buyer. However, the fair value measurement of that asset in the whole-of-government financial statements should be reduced for:

(i) the risk that the government is unable in practice to rescind the restriction because of, for example, community concerns about the asset's higher and better uses; and

(ii) the current cost (if any) of rescinding the restriction; and

(c) include an illustrative example to support the application of AASB 13 paragraphs B8 and B9 regarding the cost approach. The illustrative example would demonstrate that, when measuring an asset's fair value at its current replacement cost, economic obsolescence should not:

(i) be identified if the asset has apparent 'excess capacity' that is temporary or occurs cyclically, because such excess capacity is standby capacity forming part of the asset's service potential that is being measured; and

(ii) be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity.

The Board decided to include in the ED a specific matter for comment on whether the proposed guidance should also apply to not-for-profit entities in the private sector.

The Board will consider the remaining issues identified in the project plan at its June 2019 meeting, with a view to issuing the ED during the third quarter of 2019.

Financial Statements of Non-Disclosing Entities Lodging with ASIC

The Board discussed key findings from a near-final research report addressing the reporting practices of for-profit non-disclosing entities lodging special purpose financial statements (SPFS) with ASIC.

In particular, the Board noted that:

- 76% of large proprietary companies, small foreign-controlled proprietary companies and unlisted public companies comply with the recognition and measurement (R&M) requirements of Australian Accounting Standards (AAS), including 66% of entities that clearly stated compliance with the R&M requirements;
- 10% of the entities do not comply with the R&M requirements of AAS; and
- for the remaining 14% of such entities, it was unclear whether or not they were complying with the R&M requirements.

The research further showed a clear correlation between entity size and compliance, with the level of compliance increasing with company size.

While the Board noted that these results focused only on compliance with R&M requirements and did not identify whether entities prepared consolidated financial statements, the results show that out of approximately 7,000 for-profit entities lodging SPFS with ASIC, only 24% (approximately 1,700 entities) are expected to be affected by the proposals to remove the ability to prepare SPFS as compliance with AAS. This number will be further reduced to less than 1,300 entities by the recent doubling of the thresholds for distinguishing large and small proprietary companies.

Based on the results and related research methodology, the Board also discussed challenges users of financial statements currently face when determining whether entities are compliant with the R&M requirements of AAS.

The final report is expected to be released shortly.

International Documents Open for Comment

The Board decided not to comment on the Exposure Draft IVS 2017 *Additional Technical Revisions* issued by the International Valuation Standards Council. The ED proposes technical amendments for the guidance of valuers rather than for preparers of financial statements.

Recently Approved Documents

Since last reported (19 February 2019), 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)
	None for the period	

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
IPSASB	Exposure Draft ED67 *Collective and Individual Services and Emergency Relief*	–	–	31 May 2019
IPSASB	Consultation Paper *Measurement*	–	–	30 September 2019

AASB 2019 Scheduled Board Meeting Dates
14 June 2019
17–18 September 2019
20–21 November 2019

June 2019 AASB meeting At the next Board meeting, it is expected the Board will address the following items:
Removal of SPFS – Phase 2 (FP entities) Exposure Draft
Revised Tier 2 GPFS – *IFRS for SMEs* disclosures
Fair value measurement for public sector entities