



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 198

17 June 2019

Welcome to the AASB Action Alert

The AASB Board met in public in Sydney on 14 June 2019. At the meeting the Board made key decisions in relation to:

[AASB 1054 – Disclosure of Compliance with R&M in SPFS](#)

[AASB 1059 Service Concession Arrangements: Grantors – Implementation](#)

[New Tier 2 Standard based on IFRS for SMEs disclosures – Exposure Draft](#)

[Removal of SPFS for FP Entities – Phase 2 ED](#)

[Fair Value Measurement for Public Sector Entities](#)

The Board also discussed the following topics

[Presentation – Wayne Byres, Chairman, APRA](#)

[International Documents Open for Comment](#)

AASB 1054 – Disclosure of Compliance with Recognition and Measurement in SPFS

The Board confirmed its proposals to require for-profit entities lodging with ASIC and not-for-profit (NFP) entities lodging with the ACNC that prepare special purpose financial statements (SPFS) to disclose information about their compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

The Board decided that such entities should disclose:

- (a) the basis on which the decision was made to prepare SPFS;

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AASB Action Alert

Issue No: 198
17 June 2019

- (b) whether the entity has investments in subsidiaries, associates or joint ventures and whether they have been consolidated or equity accounted as appropriate, in accordance with AAS, and an explanation of why not complied with. If the entity is a NFP entity, and hasn't undertaken this assessment, it shall instead disclose this fact; and
- (c) an explicit statement that the accounting policies applied in the financial statements do or do not comply with all the recognition and measurement requirements in AAS, and if not, an indication of where they do not comply.

The Exposure Draft will also include implementation guidance and illustrative examples to help preparers understand the nature of the information that is to be disclosed. The required disclosures are not expected to be onerous – the extent of any non-compliance does not need to be quantified.

The proposed amendments are expected to apply to annual periods ending on or after 30 June 2020. Early voluntary disclosure is encouraged.

The Exposure Draft is expected to be issued in July with a comment period of 45 days.

AASB 1059 Service Concession Arrangements: Grantors

The Board confirmed amendments to AASB 1059 Service Concession Arrangements: Grantors and AASB 16 Leases to:

- (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 based on 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 to provide a practical expedient for grantors of service concession arrangements so that they would not need to apply AASB 16 to assets previously recognised under AASB 117 that would be classified as service concession assets in accordance with AASB 1059; and
- (c) include editorial amendments to paragraphs IG10 and IG13 in the implementation guidance.

The Fatal-Flaw Review version of the amending Standard will be open for comment until Wednesday, 17 July 2019 and finalised in August 2019.



AASB Action Alert

Issue No: 198
17 June 2019

New Tier 2 Standard based on IFRS for SMEs disclosures – Exposure Draft

The Board confirmed its proposals for both for-profit and not-for profit Tier 2 entities, including::

- (a) a new framework titled *Australian Accounting Standards – Simplified Disclosures*, which will replace the current Reduced Disclosure Requirements (RDR) framework in AASB 1053 *Application of Tiers of Australian Accounting Standards*;
- (b) a new set of principles and methodology to be used in determining Tier 2 disclosures necessary for user needs, based on the disclosures in IFRS for SMEs.; and
- (c) Tier 2 disclosures located in a separate disclosure standard, rather than shading in each standard.

The ED does not change which entities are permitted to apply Tier 2 reporting requirements and retains the same recognition and measurement requirements as for Tier 1 entities. The proposals in the ED address feedback received on ITC 39 *Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* and will help reduce compliance cost for entities that are expected to be affected by the AASB’s proposal to remove the ability for certain for-profit private sector entities to prepare special purpose financial statements (SPFS; see below).

As the proposals reduce the disclosure required under current RDR, although there may be future changes to the NFP reporting framework as a result of ongoing AASB consultations with other NFP regulators, the proposals will provide some immediate relief for not-for-profit entities that are currently reporting under RDR.

The IFRS for SMEs disclosures have been adapted for differences in recognition and measurement requirements between AAS and IFRS for SMEs, and to accommodate not-for-profit specific circumstances. The ED is expected to be issued in July with a comment period closing mid November 2019.

Removal of SPFS for FP Entities – Phase 2 ED

The Board decided to propose that the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) and the removal of the ability for for-profit private sector entities to prepare SPFS would apply to:

- (a) for profit-private sector entities that are required by legislation to comply with either Australian Accounting Standards or accounting standards;



AASB Action Alert

Issue No: 198
17 June 2019

- (b) other for-profit private sector entities that are required only by their constituting document or another document to comply with Australian Accounting Standards, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (including for-profit public sector entities) that elect to prepare general purpose financial statements.

The Board decided to provide an exemption to for-profit private sector entities such as trusts, partnerships, certain joint arrangements and self-managed superannuation funds, that have constituting documents as well as documents such as lending agreements, that require compliance with 'Australian Accounting Standards' in specifying financial reporting requirements because:

- (a) their financial statements are prepared for specific users (e.g. a trustee), and those users have the ability to command whatever information they require from the entity;
- (b) the financial statements are not lodged on the public record; and
- (c) it may be costly for entities to change their constituting document or other document where GPFS are not sought by the financial statement users.

The Board noted that if such documents are amended on or after 1 July 2020 the financial reporting requirements could be amended at that time, so the exemption will no longer apply in these circumstances.

The proposed transitional relief for entities transitioning from SPFS to GPFS-Tier 2 not fully applying the applicable recognition and measurement requirements of Australian Accounting Standards (AAS) or the requirements for consolidated financial statements in AASB 10 *Consolidated Financial Statements* (if relevant) include:

- (a) amending AASB 1053 *Application of Tiers of Australian Accounting Standards* to clarify that such an entity should be able to apply either:
 - (i) all relevant requirements of AASB 1 *First-time Adoption of Australian Accounting Standards*; or
 - (ii) Tier 2 reporting requirements directly using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (b) amending AASB 1 to present two statements of financial position in accordance with AAS at the beginning and end of the first AAS reporting period, rather than restating the comparative periods; and



AASB Action Alert

Issue No: 198
17 June 2019

- (c) a range of disclosures, including the SPFS statement of financial position and statement of profit or loss and other comprehensive income and a description of the main adjustments in transitioning from SPFS to Tier 2 GPFS. The Board expects that the ED will be issued in August and will be open for comment until mid-November 2019.

Fair Value Measurement for Public Sector Entities

In relation to its working draft of an Exposure Draft proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by public sector not-for-profit entities, the Board tentatively decided to include the following proposals and explanations:

- (a) an illustrative example demonstrating that the current replacement cost of the assets composing a facility (eg a road and land under the road, whether reported jointly or separately) includes all necessary costs intrinsically linked to acquiring those assets at the measurement date, because a market participant buyer of the entity's facility would need to incur those costs when it acquires the facility (whether the market participant buyer acquires the facility from the entity or constructs the facility itself). Each asset's current replacement cost is calculated on the assumption that the asset:
- (i) does not presently exist; and
 - (ii) requires replacing in the asset's current environment, taking into account any make-good costs that must be incurred for surrounding facilities disturbed when the asset is replaced (eg drainage works disturbed when replacing a road). However, this assumption does not preclude reconfiguring an asset to a more optimal configuration upon replacement.

Consequently, the current replacement cost of an asset (whether reported as part of facility or as a separate asset from the facility—for example, land under roads) would not exclude costs for land or permanent works because the asset is not expected to be replaced. Current replacement cost assumes hypothetical replacement of the asset being measured, and is not limited to costs of replacements actually expected to be incurred in the future;

- (b) an illustrative example demonstrating that the current replacement cost of land forming part of a facility held for its service capacity and not primarily for its ability to generate net cash inflows (such as a public hospital or public school) would typically be measured by assuming it is replaced in its present location. However, in the following rare instances, the land's current replacement cost would be measured assuming its replacement in a cheaper alternative location, consistent with a facility's current replacement cost being measured using the optimal configuration of all resources composing that facility:



AASB Action Alert

Issue No: 198
17 June 2019

- (i) management is aware and considering whether a facility's service potential can be replaced in a cheaper alternative location of its land component;
- (ii) replacing the facility in that cheaper alternative location is feasible, ie both legally permissible and compatible with the entity's operational requirements for that facility (eg relocation could only be assumed if the facility would provide the necessary accessibility of services to beneficiaries);
- (iii) the entity can identify the land's feasible alternative location within a reasonable range of estimates (ie there must not exist a number of feasible alternative locations with significantly different market buying prices of the land); and
- (iv) the current replacement cost of the facility determined on the basis of that alternative location is not exceeded by the price a market participant buyer of the facility would be prepared to pay to remove the buildings and other improvements from the existing facility's site and then sell the property as a vacant site for an alternative use (if such a course of action is legally permissible).

The Board decided that the illustrative example should also demonstrate that, where land is a component of a facility, it is essential to use consistent assumptions about the highest and best use of each asset comprising that facility; and

- (c) an explanation, in the Basis for Conclusions, that an entity's decision regarding whether to include borrowing costs in the current replacement cost of a self-constructed asset:
 - (i) does not depend on the accounting policy choice made by the entity (under paragraph Aus8.1 of AASB 123 *Borrowing Costs*) regarding whether to capitalise borrowing costs into the asset's cost on initial recognition; and
 - (ii) should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.

The Basis for Conclusions will also note the International Valuation Standards Committee's support for including borrowing costs in the fair value of property, plant and equipment.

The Board also redeliberated its tentative decision in April 2019 to propose that, for assets held for their service capacity and not primarily for their ability to generate net cash inflows, their fair value should be determined using the cost approach (ie at current replacement cost). These redeliberations took into account correspondence received from constituents on the Board's tentative decision. The Board did not make any decisions on this issue.

AASB Action Alert

Issue No: 198
17 June 2019

The Board will consider a revised draft Exposure Draft at its September 2019 meeting.

Presentation – Wayne Byres, Chairman, APRA

The Chairman of the Australian Prudential Regulation Authority, Wayne Byres, discussed with the Board the objectives and work of APRA and the financial reporting framework project of the Board.

International Documents Open for Comment

The Board approved a submission to the IASB in response to its Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform*. The ED proposes amendments to AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement* to provide relief from specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting due solely to the uncertainty arising from interest rate benchmark reform. Board members overall supported the proposals, however encouraged the IASB to proceed without delay to consider financial reporting issues that might arise once the existing interest rate benchmark is replaced with an alternative interest rate (i.e. replacement issues).

The Board decided not to comment on the following:

- (a) Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*, which proposes amendments to the Handbook to ensure it is up to date and reflects the best practice;
- (b) Exposure Draft *Annual Improvements to IFRS standards 2018-2020*, which proposes minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IAS 41 *Agriculture*.

The Board will decide on the next meeting whether to comment on the Exposure Draft *Updating a Reference to the Conceptual Framework* based on the feedback which is to be collected from the constituents.

Recently Approved Documents

Since last reported (30 April 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) |
|---------------|--|---|
| 7 May 2019 | Exposure Draft ED 288 <i>Interest Rate Benchmark Reform: amendments to AASB 9 and AASB 139</i> | 31 May 2019 |



AASB Action Alert

Issue No: 198
17 June 2019

| Date approved | Document | Effective Date (Standards/Int'ns) Due Date for Submissions (EDs) |
|---------------|--|---|
| 21 May 2019 | Conceptual Framework and AASB 2019-1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i> | 1 January 2020 |
| 24 May 2019 | Exposure Draft ED 289 <i>Annual Improvements to Australian Accounting Standards 2018–2020</i> | 31 July 2019 |
| 6 June 2019 | Exposure Draft ED 290 <i>Reference to the Conceptual Framework</i> | 20 August 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 |
|--------------------------|--|----------|---------------|-----------------------------|
| IPSASB | Exposure Draft ED67 <i>Collective and Individual Services and Emergency Relief</i> | – | – | 31 May 2019 |
| IPSASB | Consultation Paper <i>Measurement</i> | – | – | 30 September 2019 |

AASB 2019 Scheduled Board Meeting Dates

17 – 18 September 2019

20 – 21 November 2019

September 2019 AASB meeting

At the next Board meeting, it is expected the Board will address the following items:

Disclosure of compliance with recognition and measurement requirements,

Fair value measurement for public sector entities