



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 199
26 September 2019

Welcome to the AASB Action Alert

The AASB Board met in public in Melbourne on 17–18 September 2019. At the meeting the Board made key decisions in relation to:

[Disclosure of Compliance with R&M in SPFS - AASB 1054 \(ED 293\)](#)

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

[Right-of-Use Assets of Not-for-Profit Entities under Concessionary Leases](#)

[ED 295 GPFs Simplified Disclosures for FP and NFP Tier 2 Entities and ED 297](#)

[Removal of SPFS for Certain For-Profit Entities – Comment Period](#)

[AASB 15 Research Grant Examples](#)

[Amendments to IFRS 17 Insurance Contracts](#)

The Board also discussed the following topics:

[AASB 1049 – GAAP/GFS Reconciliation](#)

[Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia](#)

[Parliamentary Inquiry into the Regulation of Auditing in Australia](#)

[Public Sector Financial Reporting Framework](#)

[Financial Statements of Non-Disclosing Entities Lodging with ASIC](#)

[Financial Statements of Charities Lodging with ACNC](#)

[AASB Due Process](#)

[International Strategy](#)

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[Education Strategy](#)

[Evidence-Informed Standard-Setting Framework](#)

[AASB's User Advisory Committee](#)

[International Documents Open for Comment](#)

Disclosure of Compliance with R&M in SPFS - AASB 1054 (ED 293)

Not-for-profit entities preparing financial reports for ACNC or ASIC

The Board decided:

- (a) not-for-profit (NFP) entities required by legislation or otherwise to comply with AASB 1054 *Australian Additional Disclosures*, such as medium and large charities with revenue greater than \$250,000, registered with the Australian Charities and Not-for-profits Commission (ACNC) and companies limited by guarantee lodging financial reports with ASIC will be required to make the disclosures about compliance with recognition and measurement (R&M) requirements of Australian Accounting Standards (AAS) in their special purpose financial statements (SPFS) for annual reporting periods ending on or after 30 June 2020.

The Board noted the ACNC expressed support for increased transparency of the financial reporting in the sector. Also, the work is on-going to consider further changes to the financial reporting framework for NFP entities.

- (b) for each material disclosed accounting policy disclose whether it does not comply with AAS R&M requirements or the compliance has not been assessed.
- (c) on the basis of the assessment in (b), disclosure is made as to whether overall the AAS R&M requirements are complied with (no instances of non-compliance or non-assessment), not complied with (1 or more instances of non-compliance) or not assessed (1 or more instances of non-assessment). Where there is known non-compliance an indication of the non-compliance should be disclosed.
- (d) disclosure of compliance with the R&M requirements in AAS excludes consolidation and the equity method of accounting as these are the subject of separate disclosures;
- (e) relief from determining whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures is only available where there is no legislative requirement to make this determination; and



AASB Action Alert

Issue No: 199
26 September 2019

- (f) the proposed implementation guidance and illustrative examples in ED 293 will be updated to reflect the above decisions.

The Board noted its amended proposals do not require more information than the NFP entities already provide, as they may indicate they have not made an assessment of compliance with AAS R&M. The Board acknowledged that there is less clarity in SPFS R&M requirements for charities and the new disclosures provide appropriate information for users without undue cost to preparers. Although the scope of the proposals has been limited to NFP entities, the Board decided that a fatal-flaw review version for public comment was not required as the proposals are less onerous.

For-profit entities

The Board decided additional disclosure of information about compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS) **will not apply** to for-profit private sector entities preparing SPFS, unless the proposals in ED 297 to prohibit SPFS are not finalised. The Board acknowledged stakeholder feedback that the amendments would only be relevant to these entities for a short period of time if the proposals in ED 297 are finalised as expected by 30 June 2020 and costs are likely to outweigh benefits.

AASB 1059 Service Concession Arrangements: Grantors – Implementation

The Board decided to amend AASB 16 *Leases* and AASB 1059 to:

- (a) exempt assets that would be recognised as service concession assets under AASB 1059 from the application of AASB 16;
- (b) amend the transitional relief in AASB 1059 paragraph C4 modified retrospective method as follows:
- (i) specify any financial liability should be recognised at fair value at the date of initial application;
 - (ii) initially measure the Grant of a Right to the Operator (GORTO) liability representing the unearned portion of any revenue arising from the receipt of a service concession asset 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; and
 - (iii) measure a liability representing any unearned revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor



AASB Action Alert

Issue No: 199
26 September 2019

that has been reclassified as a service concession asset at the proceeds received, adjusted to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement;

- (c) amend paragraph B76 of AASB 1059 to clarify that the grantor's policy choice to continue applying insurance accounting is limited to contracts that meet the definition of a financial guarantee under AASB 9 *Financial Instruments*, if they have previously been accounted for as insurance contracts; and
- (d) make editorial amendments to paragraph IG10 and IG13 in the implementation guidance accompanying AASB 1059.

The amending Standard is expected to be issued shortly. The Standard will apply to periods beginning on or after 1 January 2020, with earlier application permitted.

Right-of-Use Assets of Not-for-Profit Entities under Concessionary Leases

The Board decided to propose further amendments to AASB 16 *Leases* and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* to address the following implementation issues:

- (a) provide an option under AASB 1049 for the Whole of Government and the General Government Sector to measure right-of-use (ROU) assets arising under concessionary leases at cost or at fair value in subsequent measurements, which extends the existing relief in relation to measurement at initial recognition; and
- (b) specify ROU assets under concessionary leases are a separate class of ROU assets from ROU assets arising under other leases for the purposes of AASB 16.

The Board noted the exemption does not extend to entities outside WOG or GGS, such as local governments as these entities are not required by current accounting standards to adopt a fair-value approach. A Fatal-Flaw Review version of the amending Standard is expected to be issued shortly with a comment period of 30 days.

ED 295 *GPFS Simplified Disclosures for FP and NFP Tier 2 Entities* and ED 297 *Removal of SPFS for Certain For-Profit Entities* – Comment Period extended

The Board agreed to extend the comment period for ED 295 and ED 297 by two weeks from 15 November 2019 to 30 November 2019 in response to stakeholders' feedback. The Board also noted that submissions received after the revised closing date for comments on the EDs will not be considered by the Board, as it is important to progress the projects related to ED 295 and ED 297 so that any final



AASB Action Alert

Issue No: 199
26 September 2019

Standards resulting from the proposals in the EDs are made available for entities to early adopt by 30 June 2020. For example entities transitioning from SPFS to GPFS as a result of the change in thresholds for determining large proprietary companies under the *Corporations Act 2001*. This is unlikely to be achieved if the comment period for the Eds was extended beyond the end of November 2019.

AASB 15 Research Grant Examples

The Board decided to amend Illustrative Examples 4A and 4B attached to AASB 15 *Revenue from Contracts with Customers* to clarify how AASB 15 paragraph 35(a) should be applied. However, the amendments do not change the conclusions of the Illustrative Examples.

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

The Board also discussed a revised version of draft staff FAQ presenting additional research grant examples. Staff will meet with university and medical research sector stakeholders before finalising the staff FAQ on additional research grant examples.

Amendments to IFRS 17 *Insurance Contracts*

The Board agreed that the key recommendations to the IASB in relation to ED 2019/4 *Amendments to IFRS 17 Insurance Contracts*, based on the AASB's Insurance Transition Resource Group feedback are:

- 1) extend the proposed scope of reinsurance recovery initial recognition from proportionate reinsurance relating to a loss from onerous contracts to all reinsurance contracts held for which there is a direct link between the expected recoveries and the loss recognised on underlying onerous contracts.
- 2) retain the principles in IAS 34.28, that the frequency of an entity's interim reporting shall not affect the measurement of its annual results, by removing IFRS 17 B137, which prevents change to the treatment of accounting estimates made in previous interim financial statements in subsequent annual financial statements.
- 3) adopt a business model approach (underwriting adverse development or acquiring portfolios for renewal) to determine the appropriate acquisition accounting for acquired contracts at a portfolio level, ie. liability for settlement of claims from contracts acquired to deliver a broader strategic outcome should be classified as liability for incurred claims.
- 4) note the concern of the industry in respect of using the inception date 'locked in' discount rates to accrete Contractual Service Margin and the perceived accounting mismatch this produces.



AASB 1049 – GAAP/GFS Reconciliation

The Board decided to propose optional relief from the GAAP/GFS reconciliation and the disclosure of GFS measures of key fiscal aggregates to address stakeholder concerns regarding costs of preparing such reconciliations given the increasing divergence of AAS and GFS. If the relief is adopted, additional disclosures are proposed to clarify that key fiscal aggregates presented on the financial statements are not GFS measures and to explain (but not quantify) material differences between the GAAP and GFS measures of the key fiscal aggregates. The Board noted the implications of this decision for the Financial Reporting Council GAAP/GFS harmonisation direction and will be discussing this with the FRC.

Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

The Board decided to issue a Fatal-Flaw Review Draft proposing to amend AASB 1054 *Australian Additional Disclosures* to require disclosure of the effect of new IFRS Standards that have not yet been issued by the AASB as Australian Accounting Standards, to ensure IFRS compliance for for-profit publicly accountable entities. The effective date of the amending Standard will be proposed as periods beginning on or after 1 January 2020.

Parliamentary Inquiry into Regulation of Auditing in Australia

The Board decided to make a submission to the Inquiry, addressing matters such as the importance of global and principle-based Australian Accounting Standards, the efforts of the Board in seeking improvements to the requirements for impairment testing of assets, and the usefulness of digital financial reporting to users of financial statements and regulators.

Public Sector Financial Reporting Framework

The proposals in AASB Discussion Paper *Improving Financial Reporting for Australian Public Sector* (June 2018) have been discussed with principal stakeholders. The FRC's Public Sector Working Group will lead this project, involving financial reporting regulators, auditors and Treasury officials in managing the change process.

The project will be carried out in three phases:

- Phase 1: Research and initial consultation
- Phase 2: Detailed discussions and further design work
- Phase 3: Review, acceptance and approval

Phase 1 is underway. AASB staff will work with the Commonwealth Department of Finance to prepare material to illustrate the possible financial reporting requirements of each reporting tier.



AASB Action Alert

Issue No: 199
26 September 2019

Phase 2 is expected to be undertaken in 2020–2021, which would involve developing recommendations for change for Commonwealth, State/Territory and local government.

Phase 3 would address the feedback in Phase 2 to present final proposals and obtain clearance by relevant decision-makers. Depending on the complexity of change and the legislative programs in each jurisdiction, the project is expected to be completed in 2024.

Education Strategy

The Board approved the AASB's Education strategy and making it available on the AASB's website.

Evidence-Informed Standard-Setting Framework

The Board approved the AASB's Evidence-Informed Standard-Setting Framework and making it available on AASB's website.

Financial Statements of Non-Disclosing Entities Lodging with ASIC

The Board received an update on the final findings from Research Report 12 examining the reporting practices of certain categories of (i.e. specified) for-profit entities lodging SPFS with ASIC, in particular the increased lodgement of SPFS by the specified for-profit entities from 66% in 2011 to 71% in 2018 (the preliminary findings shared in April 2019 with the Board was 55% in 2018). The Board agreed that the findings in Research Report 12, including the extent of compliance with R&M requirements of AAS by these entities, support the Board's proposals in ED 293, ED 295 and ED 297 to improve consistency, comparability, transparency and enforceability of financial statements that are required to comply with AAS.

Financial Statements of Charities Lodging with ACNC

The Board received the final findings from Research Report 11 examining the reporting practices of certain categories of for-profit entities lodging SPFS with ACNC, in particular that for 44% of the entities, it was not clear whether they complied with the R&M requirements in AAS. The Board agreed that the findings of the Research Report 11 support its effort to improve the financial reporting framework for the NFP private sector as a separate project from the for-profit sector.

AASB Due Process

The Board revised its Due Process Framework for Setting Standards and will seek Financial Reporting Council (FRC) feedback. Once finalised the Due Process Framework will be made available on the AASB's website.



User Advisory Committee meeting update

The Board was informed about the newly formed AASB User Advisory Committee (UAC), which will enable the AASB to obtain user and analyst feedback on key domestic and international projects. Feedback from the UAC on IASB related projects will be shared with the IASB.

International Strategy

The Board approved its International Strategy. Key aspects of the strategy are contained within the Due Process Document so the full strategy will not be published on the AASB's website.

International Documents Open for Comment

The Board decided not to comment on the following consultative documents open for comment, subject to no further significant concerns being expressed by constituents:

- 1) IASB Exposure Draft 2019/3 *Reference to the Conceptual Framework* which proposes narrow-scope amendments to IFRS 3 *Business Combinations* to update the old *Framework* reference to the *Conceptual Framework for Financial Reporting*.
- 2) IASB Draft *SMEIG Q&A IFRS for SMEs Standard* which provides guidance on the measurement of investment properties when transitioning to the IFRS for SMEs Standard.
- 3) IASB Exposure Draft 2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* which proposes an amendment to the initial recognition exemption in IAS 12..
- 4) IASB Exposure Draft 2019/6 *Disclosure of Accounting Policies and IFRS Practice Statement 2* which proposes narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgments* to require entities to disclose their material accounting policies rather than their significant accounting policies.
- 5) IPSASB Exposure Draft 68 *Improvements to IPSAS 2019* which proposes non-substantive changes to IPSAS to improve consistency within IPSAS.
- 6) IPSASB Exposure Draft 69 *Public Sector Financial Instruments: Amendments to IPSAS 41 Financial Instruments*, which proposes additional non-authoritative guidance to clarify the requirements for classifying, recognising and measuring monetary gold, currency in circulation International Monetary Fund (IMF) quota subscription and IMF Special Drawing Rights.
- 7) International Valuation Standards Council Financial Instruments Agenda Consultation 2019.

AASB Action Alert

Issue No: 199
26 September 2019

Recently Approved Documents

Since last reported (14 June), 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)
19 June 2019	Fatal-Flaw Review Draft: Proposed Standard Amendments to Australian Accounting Standards – Implementation of AASB 1059	17 July 2019
2 July 2019	ED 292 Amendments to AASB 17	30 August 2019
4 July 2019	ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements	19 August 2019
25 July 2019	ED 294 Deferred Tax related to Assets and Liabilities arising from a single transaction	18 October 2019
1 August 2019	ED 295 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-For-Profit Tier 2 Entities	30 November 2019
2 August 2019	ED 296 Disclosure of Accounting Policies	28 October 2019
15 August 2019	ED 297 Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities	30 November 2019

AASB 2019 Scheduled Board Meeting Dates

21 November 2019

September 2019 AASB meeting

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

Definition of NFP

Fair value measurement

Project plan for NFP Private Financial Reporting Framework

Project plan for NFP Public Financial Reporting Framework