



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 202
4 May 2020

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 30 April 2020. At its 175th meeting the Board made key decisions in relation to:

[Minimum Disclosures for SPFS Referring to Australian Accounting Standards for For-Profit Private Sector Entities](#)

[Primary Financial Statements](#)

[Coronavirus Impact on Financial Reporting – Additional Guidance](#)

[Not-for-Profit Entity Definition and Guidance](#)

The Board also discussed the following topics:

[IBOR Phase 2 Exposure Draft](#)

[Fair Value Measurement for Not-for-Profit Entities](#)

[International Documents Open for Comment](#)

Minimum Disclosures for SPFS Referring to Australian Accounting Standards for For-Profit Private Sector Entities

The Board confirmed its proposals to amend AASB 1054 *Australian Additional Disclosures* to require certain for-profit private sector entities, such as those with trust/partnership/joint venture agreements requiring compliance with Australian Accounting Standards created or last amended before 1 July 2021, that prepare special purpose financial statements (SPFS) to disclose information about the accounting policies applied in those SPFS along with information about the extent of compliance or otherwise with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

Contact us: Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007
Phone (03) 9617 7600 **Email** standard@asb.gov.au **Website** www.asb.gov.au

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Background

In March 2020, the Board issued *AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* which limits the preparation of SPFS that comply with AAS by for-profit private sector entities to:

- (a) entities whose constituting document (or another document), requiring them to comply with Australian Accounting Standards, was created or last amended before 1 July 2021; and
- (b) entities with a legislative requirement to prepare financial statements that comply with Australian Accounting Standards or accounting standards, for financial statements for periods beginning prior to 1 July 2021, if they elect not to early adopt the requirements in AASB 2020-2.

Accordingly, there is likely to be a number of entities that will continue to be able to prepare special purpose financial statements and state that their special purpose financial statements have been prepared in compliance with Australian Accounting Standards for a long period of time.

Without a clear explanation of what compliance with AAS means, there is a significant risk of users being misled regarding the basis of preparation of SPFS.

This was previously considered by the Board via ED 293 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*. However, when finalising the proposals in ED 293, their application was limited to not-for-profit entities. This decision was made subject to finalising AASB 2020-2, and in doing so was reconsidered by the Board.

Proposed requirements

The Board decided to issue an Exposure Draft proposing that those entities in (a) and (b) above would be required to disclose:

- (a) the basis on which the decision to prepare SPFS was made;
- (b) information about the material accounting policies applied in the special purpose financial statements, including information about any changes in those accounting policies;
- (c) where the entity has interests in other entities – whether or not its subsidiaries and investments in associates or joint ventures have been consolidated or equity accounted in a manner consistent with the requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*, as appropriate. If the entity has not consolidated its subsidiaries or equity accounted its investments in associates or joint ventures consistently with those requirements, it would disclose that fact, and the reasons why;



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- (d) for each material accounting policy applied and disclosed in the financial statements that does not comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128) – an indication of how it does not comply; and
- (e) whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards (except for requirements set out in AASB 10 or AASB 128).

The proposed amendments are expected to apply to annual periods ending on or after 30 June 2021. Early voluntary disclosure is encouraged.

The Exposure Draft is expected to be issued shortly with a comment period of 90 days.

Primary Financial Statements

The Board directed staff to undertake further research and consideration of the following issues, to assist in developing its comment letter on the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures*:

- (a) the scope of Management Performance Measures (MPMs), in particular whether to recommend expanding the scope of MPMs to include internal performance measures used as a basis for management compensation;
- (b) challenges in auditing MPMs and their associated reconciliations;
- (c) whether to permit entities to determine their own accounting policies in respect of classifying associates and joint venture as integral or non-integral, with a requirement to disclose the judgements made in making that determination;
- (d) the appropriateness of permitting a mixed analysis by nature and function on the face of the statement of profit or loss; and
- (e) whether it is practical to disclose forward-looking information on expected items of future income or expense if recommending to permit items that may carry over more than one reporting period (such as a restructure) to be included in the definition of unusual items of income and expense.

The Board's recommendations to the IASB will be discussed further at the Board's June meeting.

Coronavirus Impact on Financial Reporting – Additional Guidance

Publications outlining areas of consideration for stakeholders in light of the impact of COVID-19 will be issued, including:



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- (a) going concern assessments and disclosures, jointly with the AUASB;
- (b) accounting for government grants;
- (c) impairment testing and fair value measurement.

Such publications would be educational in nature and would not change any requirements of Australian Accounting Standards.

The Board decided that it was unnecessary to defer the application date of certain Accounting Standards for not-for-profit entities, including AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases*.

With respect to the IASB's Exposure Draft ED/2020/2 *Covid-19-Related Rent Concessions*, the Board decided to provide informal feedback to the IASB staff in light of the short 14-day comment period. The Board noted concern that the relief is not proposed to extend to lessors. The Board also noted concern that principle 12 of the *National Cabinet Mandatory Code of Conduct – SME Commercial Leasing Principles During Covid-19*, which allows for leases to be extended for an equivalent period of any rent waiver and/or deferral period, may lead to concessions falling outside the scope of the proposals. However, the Board acknowledged paragraph BC5(c) of the IASB's Exposure Draft, which clarifies that, for example, a three-month rent holiday followed by three additional months of substantially equivalent payments at the end of the lease would not prevent the application of the proposed expedient.

Not-for-Profit Entity Definition and Guidance

The Board decided in respect of the implementation guidance proposed in ED 291 to:

- (a) retain the terms of "equity" and "equity holder" and to clarify that:
 - equity is the residual interest in the assets of the entity after deduction of its liabilities;
 - equity holders are the holders of any equity claims of an entity and in the absence of clear equity instruments, the equity holders are those who have the rights to direct the use of the economic resources of the entity (e.g. members of clubs);
- (b) not provide further clarification on "primary objective" and "community or social benefit", acknowledging that judgement is required to perform the assessment;
- (c) include instances when the presumption that an entity is a not-for-profit (NFP) entity for financial reporting if it is a NFP entity for taxation purposes is rebutted and directed staff to reconsider the drafting of the rebuttal of the presumption to better reflect the implementation guidance;



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- (d) include the flowcharts incorporating illustrative examples and demonstrating the assessment process for entities self-assessed as NFP for taxation purposes and for other entities;
- (e) include an illustrative example to clarify the term “providing goods or services for community and social benefit”; and
- (f) restructure the illustrative examples to include an overall assessment, emphasising the involvement of judgement in the assessment process.

The Board will consider revised implementation guidance and illustrative examples at a future Board meeting.

IBOR Phase 2 Exposure Draft

The Board approved its submission to the IASB in response to its Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform—Phase 2* generally supporting the proposals, based on the preliminary feedback obtained to date and subject to any further comments received from constituents. The Phase 2 proposals aim to address the replacement issues, such as issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. The main proposed amendments relate to modifications, hedge accounting and disclosures.

Fair Value Measurement for Not-for-Profit Entities

The Board decided, as an interim step, while it continues deliberation about the fair value measurement of restricted assets and right-of-use assets arising under concessionary leases, to issue a limited-scope Exposure Draft for application by public sector not-for-profit entities. The Exposure Draft would propose the following amendments (including additional guidance) to AASB 13 *Fair Value Measurement* in respect of assets held primarily for their service capacity:

- (a) in respect of land subject to restrictions, add a requirement to disclose the amounts of any material discounts deducted from the current market buying price of equivalent unrestricted land, including the basis for such discounts; and
- (b) additional guidance in respect of assets measured at current replacement cost, such as:
 - the nature of costs included in an asset’s current replacement cost;
 - the assumed location of land forming part of a facility; and
 - identifying and measuring economic obsolescence.

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The Board asked staff to consult with public sector stakeholders regarding the proposed disclosures about discounts on restricted land and prepare a draft Exposure Draft for the Board's deliberation at a future meeting.

International Documents Open for Comment

The Board decided to perform targeted outreach to collect feedback from stakeholders and provide comments to the IASB on the Discussion Paper *Business Combinations under Common Control*, which is expected to be published in September 2020.

Recently Approved Documents

Since last reported (10 March 2020), 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)
25 March 2020	AASB Discussion Paper <i>Business Combinations—Disclosures, Goodwill and Impairment</i>	2 October 2020 (revised date)
14 April 2020	ED 299 <i>Interest Rate Benchmark Reform—Phase 2</i>	15 May 2020
27 April 2020	ED 300 <i>Covid-19-Related Rent Concessions</i>	8 May 2020

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. You can submit your comments to the AASB via the [AASB website](#), [LinkedIn](#) or [email](#).

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2020/2 Covid-19-Related Rent Concessions	300	8 May 2020	8 May 2020
IFRIC	Tentative Agenda Decision: Deferred Tax Related to an Investment in a Subsidiary (IAS 12)	n/a	n/a	13 May 2020
IFRIC	Tentative Agenda Decision: Sale and Leaseback with Variable Payments (IFRS 16)	n/a	n/a	13 May 2020



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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2020/1 Interest Rate Benchmark Reform—Phase 2	299	15 May 2020	25 May 2020
IASB	ED/2019/7 General Presentation and Disclosures	298	15 August 2020 (revised date)	30 September 2020 (revised date)
IASB	Comprehensive Review of the IFRS for SMEs Standard	n/a	n/a	27 October 2020 (revised date)
IPSASB	ED70 Revenue with Performance Obligations	n/a	n/a*	1 November 2020 (revised date)
IPSASB	ED71 Revenue without Performance Obligations	n/a	n/a*	1 November 2020 (revised date)
IPSASB	ED72 Transfer Expenses	n/a	n/a*	1 November 2020 (revised date)
IASB	DP/2020/1 Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment	n/a	2 October 2020 (revised date)	31 December 2020 (revised date)

* The AASB will perform targeted outreach to inform its submission to the IPSASB.

AASB 2020 Scheduled Board Meeting Dates

11 June 2020
16 – 17 September 2020
11 – 12 November 2020

June 2020 AASB meeting

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

Primary Financial Statements
Fair Value Measurement – NFP Entities
Coronavirus Impact on Financial Reporting
Audit Fee Disclosures