



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 205
13 November 2020

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 11 – 12 November 2020. At its 178th meeting, the Board made key decisions in relation to:

[Not-for-Profit Private Sector Financial Reporting Framework](#)

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

[Goodwill and Impairment](#)

[Minimum Disclosures in SPFS of Certain For-Profit Private Sector Entities](#)

[Sustainability Reporting](#)

The Board also discussed the following topics:

[Termination for Convenience Clauses](#)

[Going Concern](#)

[Transition Between Tier 2 Frameworks for Not-for-Profit Entities](#)

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

The Board noted with thanks the significant contributions of the Board members retiring from the Board at the end of the year: Mike Blake (Deputy Chair), Ken Liow and Carmen Ridley.

Not-for-Profit Private Sector Financial Reporting Framework

The Board noted further feedback from the initial targeted consultations and decided to develop a Consultation Paper. The Board emphasised the importance and urgency of the financial reporting issues

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and will review the project timeline after considering the scope of a working draft of the Consultation Paper at the February 2021 Board meeting, including whether service performance information reporting should be included in the Consultation Paper.

Fair Value Measurement for Not-for-Profit Entities

The Board noted additional feedback from users of public sector entities' financial statements regarding the current value measurement perspective most useful to them, and the potential interim disclosures, in relation to restricted land held primarily for its service capacity. The Board decided to consider the effect of cross-cutting projects of the AASB and international standard-setters, including the IPSASB's Measurement project, before proposing any amendments to AASB 13 *Fair Value Measurement*. The Board decided to respond to the IPSASB on its forthcoming Exposure Drafts, ED 76 *Conceptual Framework – Limited-Scope Update* and ED 77 *Measurement*. The Board intends to add AASB Specific Matters for Comment in exposing the IPSASB Exposure Drafts for comment in Australia.

The Board also asked staff to consult with stakeholders who originally requested guidance to assist not-for-profit public sector entities in applying AASB 13 to understand:

- whether circumstances and the scope of guidance requested have changed since then (e.g. the extent of diversity in applying AASB 13 in the not-for-profit public sector); and
- the specific aspects of fair value measurement for which guidance is most promptly needed.

Goodwill and Impairment

The Board decided to provide the following feedback on the IASB's Discussion Paper DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*:

- Board members have mixed views on whether to retain the impairment-only approach. While the amortisation of goodwill is preferred by some preparers and auditors as a practical expedient that would reduce costs and remove some of the judgement associated with the impairment test, the impairment-only approach may be favoured by users in providing information about the success of business combinations and avoiding arbitrary amortisation expenses. However, the Board also noted that an impairment test would be required under both the impairment-only and amortisation approaches. To address concerns about the appropriate application of the impairment test, the Board will suggest that the IASB develop a template or illustrative example to assist entities to understand and apply the principles of the value-in-use (ViU) model in IAS 36 *Impairment of Assets*.
- In addition, the Board:



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- does not support the requirement to disclose in the financial statements information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker to monitor those acquisitions, but questions whether this should be dealt with in the IASB's project to revise the Management Commentary Practice Statement;
- acknowledges concerns raised by stakeholders about the quantification and auditability of the proposed subsequent performance and expected synergy disclosures and will suggest that the IASB discuss the auditability of the proposed disclosures with the International Auditing and Assurance Standards Board;
- supports the IASB's proposal to retain the existing pro-forma revenue and profit disclosures, but does not support the introduction of new pro-forma cash-flow disclosures;
- does not support the IASB's proposal to remove the annual impairment test requirement, given concerns from users about the loss of information in the financial statements and limited evidence of cost savings;
- supports the proposed simplifications of the ViU model but recommends the IASB provides implementation guidance and explains the differences between the ViU model and the fair value model where fair value is calculated using discounted cash flows; and
- does not support allowing the reversal of previously recognised goodwill impairments.

A subcommittee of the Board will finalise the submission out of session.

Minimum Disclosures in SPFS of Certain For-Profit Private Sector Entities

The Board decided it will proceed with the proposals in ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*, with some changes. The amendments will require certain for-profit private sector entities 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 requirements in Australian Accounting Standards. The Board reiterated that the purpose of the amendments is to ensure the basis of preparation is clear where an entity asserts compliance with Australian Accounting Standards in its SPFS.

In finalising its views, the Board decided to:

- delay the effective date of the final amendments to apply to reporting periods beginning on or after 1 July 2021, with early adoption permitted;



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- in doing so, exclude entities within the scope of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. Entities within the scope of AASB 2020-2 are for-profit private sector entities that are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards, and 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 document was created or last amended on or after 1 July 2021); and
- require entities to comply with the disclosure requirements in paragraphs 8 and 9 of AASB 1054 *Australian Additional Disclosures* (i.e. disclosure of an entity's reporting framework and whether the statements are General Purpose Financial Statements or SPFS).

An amending Standard is expected to be issued in December 2020.

Sustainability Reporting

The Board decided to submit a comment letter in response to the IFRS Foundation Trustees' *Consultation Paper on Sustainability Reporting* (September 2020).

The Board supports the initiative to reduce diversity and achieve greater global consistency in sustainability reporting. Staff will undertake targeted outreach to inform the Board's feedback to the Trustees, including the question of whether the IFRS Foundation is the appropriate organisation to lead the initiative. The submission will be approved out of session by a subcommittee of the Board.

Termination for Convenience Clauses

The Board noted the staff analysis of the requirements of Australian Accounting Standards that may be relevant when assessing the effect of termination for convenience clauses. The Board agreed that, in accordance with the *AASB Due Process Framework for Setting Standards*, the matter would need to be referred to the IFRS Interpretations Committee if authoritative guidance is required to address diversity in practice, since the issue is relevant to both for-profit and not-for-profit entities. The Board directed staff to further discuss with and assist the stakeholders raising the issue if the stakeholders wish to submit a request to the IFRS Interpretations Committee.



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Going Concern

The Board decided to develop a thought-leadership paper addressing:

- the issues and available evidence regarding the adequacy of going concern disclosures currently required by Accounting Standards and the basis of preparation where the going concern assumption is no longer appropriate; and
- recommendations on how the IASB could address the issues identified.

The Board also decided to address its findings in its submission to the IASB's upcoming agenda consultation, which is expected to be issued by the IASB in March 2021 for comment.

Transition Between Tier 2 Frameworks for Not-for-Profit Entities

The Board noted an inconsistency whereby not-for-profit (NFP) entities transitioning early from Tier 2 – Reduced Disclosure Requirements to Tier 2 – Simplified Disclosures are not able to access the same transitional relief as for-profit private sector entities permitted by AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph E4. AASB 1053 paragraph E4 provides relief from presenting comparative information in the notes if an entity did not previously disclose the comparable information in its most recent previous financial statements.

The Board decided to issue an exposure draft proposing to extend this relief to NFP entities. The Exposure Draft will be issued shortly with a short comment period.

The Board considered whether to also extend the relief available in AASB 1053 paragraphs E5-E7, which provides relief from restating comparative information, to for-profit private sector entities that had not complied with all recognition and measurement requirements (including, if a parent entity, not presenting consolidated financial statements prepared in accordance with AASB 10 *Consolidated Financial Statements*) in their most recent previous special purpose financial statements (SPFS). However, the Board decided not to extend this relief, as this could result in the loss of useful, restated comparative information. The Board noted that it had decided to grant such relief to for-profit private sector entities due to the mandatory removal of SPFS for such entities, which does not apply to NFP entities.

Parliamentary Inquiry into the Regulation of Auditing in Australia

The Board welcomed the Parliamentary Joint Committee on Corporations and Financial Services' final report into the regulation of auditing in Australia. The Board's responses to the recommendations relevant to it will be discussed at a future meeting.



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Recently Approved Documents

Since last reported (21 September), the Board has approved the following Standards, Exposure Drafts or other proposal documents.

Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
12 October 2020	ED 304 Interest Rate Benchmark Reform – Phase 2: Tier 2 Disclosures	12 November 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.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Discussion Paper DP/2020/1 <i>Business Combinations—Disclosures, Goodwill and Impairment</i>	n/a	Closed	31 December 2020
IFRS Foundation Trustees	Consultation Paper on <i>Sustainability Reporting</i>	n/a	n/a	31 December 2020
IPSASB	ED 74 <i>IPSAS 5, Borrowing Costs – Non-Authoritative Guidance</i>	n/a	n/a	31 March 2021

AASB 2021 Scheduled Board Meeting Dates

24-25 February
20-21 April
21-22 June
8-9 September
10-11 November

February 2021 AASB meeting

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

Fair Value Measurement for Not-for-Profit Entities
Not-for-Profit Private Sector Financial Reporting Framework
Audit Fee Disclosures
Transition Between Tier 2 Frameworks for NFP Entities
Insurance for Public Sector Entities