



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 206

1 March 2021

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 24 – 25 February 2021. At its 179th meeting, the Board made key decisions in relation to:

[Agenda Consultation](#)

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

[Transition between Tier 2 Frameworks for NFP Entities](#)

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

[Insurance Activities in the Public Sector](#)

[Audit Engagement-related Disclosures](#)

The Board also discussed the following topics:

[Classification of Debt with Covenants](#)

[Disclosure of Accounting Policies and Definition of Accounting Estimates](#)

[Business Combinations under Common Control \(BCUCC\)](#)

[Other Submissions](#)

[Research Update](#)

Agenda Consultation

The Board decided to undertake a domestic AASB agenda consultation process for the period 2022–2026 in accordance with the *AASB Due Process Framework for Setting Standards*. The Board decided to consider the scope of the consultation, including the approach to current projects and the criteria for

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the inclusion of potential projects and priorities, at the April Board meeting, with a view to issuing an Invitation to Comment in Q3 2021.

Not-for-Profit Private Sector Financial Reporting Framework

The Board made the following tentative decisions for future consultation on a possible differential financial reporting framework for not-for-profit (NFP) private sector entities:

- the existing two tiers of reporting requirements (Tier 1 and Tier 2) would continue to be available for NFP private sector entities preparing general purpose financial statements;
- develop a further reporting tier ('Tier 3') in response to stakeholder concerns that Tier 2 reporting requirements are not proportionate for certain NFP private sector entities, including those which might no longer be able to prepare special purpose financial statements should the Board decide to remove the 'reporting entity' definition currently applicable to NFP entities; and
- not to specify application thresholds for the tiers, but directed staff to engage with regulators on how their requirements for entities to prepare financial statements in accordance with Australian Accounting Standards or otherwise would interact with future financial reporting requirements to ensure clarity in the future consultation document.

The Board also tentatively decided not to include any service performance reporting proposals in this consultation document, subject to clear communication of how it would address this topic and feedback from relevant regulators on the interaction of this decision with their priorities. The Board reiterated that it considers reporting of service performance information useful to users of the financial statements of NFP private sector entities but acknowledged that complexities in developing proposals in this regard might disproportionately delay progress on the differential reporting framework.

The Board will consider proposals for Tier 3 reporting requirements for the consultation document at future meetings.

Transition between Tier 2 Frameworks for NFP Entities

The Board decided to proceed with the proposals in ED 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities*, with only minimal changes.

The amendments will provide NFP entities adopting AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* early with relief from presenting comparative information in the notes to the financial statements where the entity did not disclose the comparable information in its most recent previous general purpose financial statements.



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In finalising its views, the Board decided:

- to extend the relief from presenting comparative information for those disclosures not previously made to also include transition from Tier 1 to AASB 1060 (an extension of the relief proposed in ED 306); and
- not to provide any relief to NFP entities transitioning from special purpose financial statements at this time. This is because NFP entities are not currently required to transition from special purpose financial statements. The Board did however reaffirm that it intends to consider specific transition relief for NFP entities, including those that may be required to transition from special purpose financial statements, as part of its Not-for-Profit Private Sector Financial Reporting Framework project.

An amending Standard is expected to be issued shortly.

Fair Value Measurement for Not-for-Profit Entities

The Board decided the general content of the AASB Specific Matters for Comment (SMCs) to be added to the Invitation to Comment (ITC) it will issue in respect of the forthcoming IPSASB Exposure Drafts ED 76 *Conceptual Framework Chapter 7 – Measurement Update* and ED 77 *Measurement*. Those SMCs are primarily to obtain views about the IPSASB's proposed 'current operational value' measurement basis for the current value measurement of assets held for their operational capacity (service potential). They will include specific questions about the costs and benefits for Australian NFP entities of adopting the IPSASB's proposed current operational value measurement basis, compared with the costs and benefits of either:

- continuing current practice in applying AASB 13 *Fair Value Measurement*; or
- changing current practice if – through due process – the Board's tentative decisions to date in its Fair Value Measurement for NFP Entities project were to come into effect.

The ITC will have a 90-day comment period.

The Board noted responses to its stakeholder survey about the importance and urgency of the fair value measurement issues that the Board has been deliberating, as well as additional measurement-related topics for which guidance is most promptly needed. The Board decided to seek more information through its processes related to the IASB's Agenda Consultation and the Board's Agenda Consultation for domestic projects regarding:

- whether borrowing costs should be included in the measurement of a non-financial asset's current replacement cost; and



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- other measurement-related topics unrelated to fair value measurement.

The Board instructed staff to analyse the additional fair value measurement-related topics raised by survey respondents, initially as input to developing the Board's submission to the IPSASB on ED 76 and ED 77 and subsequently for Board discussion regarding the scope and timing of future work on its Fair Value Measurement for NFP Entities project.

Insurance Activities in the Public Sector

The Board confirmed the objective of this project is to consider whether it would be appropriate to apply AASB 17 *Insurance Contracts* to public sector entities in accordance with the *AASB Not-for-Profit Entity Standard-Setting Framework* and its transaction neutrality principle; and as far as possible to achieve a consistent accounting outcome in the Australian and New Zealand public sectors.

The Board instructed staff to address the following issues for deliberation at future meetings:

- identifying relevant 'insurance-like' activities that should be accounted for under AASB 17;
- identifying insurance entities that should prepare financial statements;
- eligibility for the 'simplified' premium allocation approach to measuring liabilities for remaining coverage;
- discount rates;
- the relevance and measurement of risk adjustments for the liability for incurred claims;
- the classification of 'non-insurance' cost;
- the recognition of onerous contracts; and
- the measurement of investments backing insurance liabilities.

The Board's decisions are broadly consistent with the decisions made by the NZASB at its February 2021 meeting.

Audit Engagement-related Disclosures

The Board directed staff to develop a draft Exposure Draft for the April meeting with proposed revised auditor remuneration disclosures based on the work presented in [AASB Research Report 15 Review of Auditor Remuneration Disclosure Requirements](#) and other outreach and research activities. However, issuance of the ED may be subject to the International Ethics Standards Board for Accountants (IESBA) finalising its projects on fees and non-assurance services and the Government's response to the



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recommendations in the Parliamentary Joint Committee on Corporations and Financial Services' report on the *Regulation of Auditing in Australia*.

Staff will undertake further research on disclosures about auditor tenure and consult the Auditing and Assurance Standards Board (AUASB) whether such disclosures would be better addressed in auditing standards. To promote international consistency, the Board will further recommend that the IASB considers adding a project on audit engagement-related disclosures as part of the IASB's forthcoming Agenda Consultation.

Classification of Debt with Covenants

The Board noted the recent agenda decision from the IFRS Interpretations Committee on the classification of debt with covenants as current or non-current liabilities. Although the Board noted that the decision appears to be consistent with the wording in the revised IAS 1 *Presentation of Financial Statements*, Board members were concerned that the amendments made to IAS 1 may have unintended consequences. The Board directed staff to raise the matter with IASB staff and consider whether a submission to the IASB is warranted.

Disclosure of Accounting Policies and Definition of Accounting Estimates

The Board noted recent amendments made by the IASB in relation to the disclosure of accounting policies and the definition of accounting estimates. The Board decided to make equivalent amendments to AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* shortly.

To retain consistency in the disclosure of accounting policies, it would also be necessary to make amendments to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Staff will bring a draft Exposure Draft to a future meeting.

Other Submissions

The Board decided to make submissions on the following documents:

- the IASB's Exposure Draft ED/2020/4 *Lease Liability in a Sale and Leaseback* – expressing concern that the proposals are inconsistent with the general requirements of IFRS 16 *Leases*;
- the Australian Government Treasury consultation paper *Increasing financial reporting thresholds for ACNC-registered charities* – expressing continued support to harmonise charities' reporting requirements across all States and Territories in order to enable consistent criteria and thresholds for financial reporting requirements, and highlighting the potential interaction between the reporting



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thresholds set by regulators and the possible future differential financial reporting framework for NFP private sector entities; and

- the IFRS IC's tentative agenda decision on the *Preparation of Financial Statements when an Entity is No Longer a Going Concern* – expressing support for the conclusions drawn in the tentative decision and noting the AASB's current project to gather evidence about the issues.

In light of the short 14-day comment period, the Board will provide informal feedback to the IASB staff on the IASB's Exposure Draft ED/2021/2 *Covid-19-Related Rent Concessions beyond 30 June 2021*, supporting the proposals. In relation to the IFRS IC's tentative agenda decision on *Costs Necessary to Sell Inventories*, staff will consult selected stakeholders to assess whether there are any concerns to raise with the IFRS IC.

Subject to feedback from targeted outreach and submissions from stakeholders, the Board also decided to make submissions on the following documents:

- the IASB's Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities* and the forthcoming Exposure Drafts *Disclosure Initiative – Targeted Standards-level Review of Disclosures, Lack of Exchangeability* and *Revised Practice Statement on Management Commentary*; and
- the IPSASB's Request for Information *Concessionary Leases and Other Arrangements Similar to Leases*.

Business Combinations under Common Control (BCUCC)

The Board received an education session from AASB staff on IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control*. The Board intends to consider a draft submission at its June 2021 meeting.

DP/2020/2 is incorporated in AASB Invitation to Comment ITC 42 *Business Combinations under Common Control*. Stakeholders are encouraged to make a submission to the Board on ITC 42 – the Australian comment period closes on 17 July 2021.

Research Update

The Board noted the recent Research Centre activities, including:

- the February 2021 AASB Academic Advisory Panel meeting;
- planning for the November 2021 AASB Academic Research Forum, the selected research teams and presentation themes;

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- planning for joint research with the Malaysian Accounting Standards Board on transitional arrangements and practical expedients that might be required or permitted in future Accounting Standards; and
- plans to soon publish two research reports ‘Financial Reporting by Non-Corporate or Small Entities’ and ‘The Impact of IFRS Adoption in Australia: Evidence from Academic Research’.

Recently Approved Documents

Since last reported (13 November), the Board has approved the following Standards, Exposure Drafts or other proposal documents.

Date Approved	Document	Effective Date (Standards/Int’ns) or Due Date for Submissions (EDs)
3 December 2020	ITC 42 <i>Business Combinations under Common Control</i>	17 July 2021
3 December 2020	ED 305 <i>Lease Liability in a Sale and Leaseback</i>	Closed
7 December 2020	AASB 2020-9 <i>Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments</i>	1 July 2021
14 December 2020	AASB 1048 <i>Interpretation of Standards</i>	31 December 2020
15 December 2020	ED 306 <i>Transition Between Tier 2 Frameworks for Not-for-Profit Entities</i>	Closed
17 December 2020	ITC 43 <i>Request for Comment on IASB Request for Information on Post-implementation Review – IFRS 10, 11 and 12</i>	15 March 2021
4 February 2021	ED 307 <i>Regulatory Assets and Regulatory Liabilities</i>	10 May 2021
12 February 2021	ED 308 <i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>	Closed

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.



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Issuer	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Request for Information – Post-implementation Review – IFRS 10, IFRS 11 and IFRS 12	ITC 43	15 March 2021	10 May 2021
IASB	ED/2020/4 Lease Liability in a Sale and Leaseback	ED 305	Closed	29 March 2021
IPSASB	ED 74 IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	n/a	n/a	31 March 2021
IFRS IC	Tentative Agenda Decision: Costs Necessary to Sell Inventories (IAS 2)	n/a	n/a	14 April 2021
IFRS IC	Tentative Agenda Decision: Preparation of Financial Statements when an Entity is No Longer a Going Concern	n/a	n/a	14 April 2021
IASB	ED/2021/1 Regulatory Assets and Regulatory Liabilities	ED 307	10 May 2021	30 June 2021
IPSASB	ED 75 Leases and Request for Information Concessionary Leases and Other Arrangements Similar to Leases	n/a	n/a	17 May 2021
IASB	Discussion Paper DP/2020/2 Business Combinations under Common Control	ITC 42	17 July 2021	1 September 2021

AASB 2021 Scheduled Board Meeting Dates

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

April 2021 AASB meeting

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

Not-for-Profit Private Sector Financial Reporting Framework
Not-for-Profit Entity Definition and Guidance
Fair Value Measurement for Not-for-Profit Entities
Insurance Activities in the Public Sector
Agenda Consultation
Audit Engagement-related Disclosures
Going Concern Disclosures
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12