



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 207
22 April 2021

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 20 – 21 April 2021. At the meeting the Board made key decisions in relation to:

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

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

[Service Concession Arrangements: Grantors – Initial Application](#)

[Insurance Activities in the Public Sector](#)

[AASB Agenda Consultation](#)

[Post-Implementation Review of IFRS 10, 11 and 12](#)

The Board also discussed the following topics

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Not-for-Profit Private Sector Financial Reporting Framework

Proposal to remove ability to prepare special purpose financial statements (SPFS) through withdrawal of SAC 1 and interaction with Revised Conceptual Framework

The Board decided that a discussion paper on a possible differential financial reporting framework for not-for-profit (NFP) private sector entities will propose:

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- (a) the withdrawal of SAC 1 *Definition of the Reporting Entity* for NFP private sector entities, and the amendment of AASB 1053 *Application of Tiers of Australian Accounting Standards*, to remove the option for such entities to prepare special purpose financial statements; and
- (b) that, subject to due process, these steps should take effect concurrently with:
 - (i) Stage 1 of the Board's updated Revised Conceptual Framework for NFP entities – to avoid simultaneous application of two different concepts of a 'reporting entity' by the same entities; and
 - (ii) the Board's differential reporting requirements for NFP private sector entities – to make Tier 3 reporting requirements available immediately, where applicable, for those entities preparing general purpose financial statements for the first time.

In the discussion paper, the Board will also consult on the cross-cutting issues that could result in NFP modifications of its Revised Conceptual Framework, such as:

- (a) which parties should be identified as the primary users of general purpose financial reports of NFP private sector entities; and
- (b) whether the objective of general purpose financial reporting by NFP private sector entities should give greater emphasis to stewardship (or accountability).

Principles for developing proposed Tier 3 reporting requirements

The Board decided to develop its proposals on Tier 3 accounting requirements having regard to 'user needs' and 'cost/benefit' as overarching principles, and having regard to balances and transactions commonly undertaken by NFP private sector entities with revenues between \$500,000 and \$3 million. This size indication provides the Board with an indicative boundary for identifying common transactions and forming views on requirements applying to Tier 3 financial statements, but is not intended to identify or limit the entities that might prepare Tier 3 general purpose financial statements in the future.

The Board decided on the following principles, against which it will form its views on Tier 3 accounting requirements, for inclusion in a discussion paper:

- (a) the development of Tier 3 reporting requirements is subject to the *AASB Not-for-Profit Entity Standard-Setting Framework*;
- (b) Tier 3 financial statements are general purpose financial statements. As such, Tier 3 financial statements provide useful financial information to users of the financial statements;



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- (c) consistency with the accounting principles specified by Tier 2: Australian Accounting Standards – Simplified Disclosures is desirable, but might not always be warranted, since Tier 3 requirements are being developed as a proportionate response to the costs incurred by certain entities whilst still meeting the needs of users of the financial statements for this cohort of entities. For example, opportunities for deviation from Tier 2 accounting principles that could give a similar outcome to users while reflecting an appropriate cost/benefit balance could include disclosure requirements instead of a Tier 2 measurement requirement or an approach of specifying minimum ‘prescriptive’ disclosures;
- (d) where possible within the context of its conceptual framework and user needs and cost/benefit considerations, in developing accounting requirements the aim is to maximise leveraging information that management uses to make decisions about the entity’s operations; and
- (e) accounting requirements do not impose disproportionate costs to preparers, when compared to benefits of the information.

In forming its views on Tier 3 reporting requirements, the Board decided it would consider, and be informed by, reporting requirements of other jurisdictions applying to similar-sized NFP private sector entities, including New Zealand.

The Board intends to evaluate its future decisions on Tier 3 reporting requirements against its conceptual framework and the similarity of the proposed requirements to existing AASB reporting requirements and New Zealand’s Tier 3 reporting requirements.

Not-for-Profit Entity Definition and Guidance

The Board decided to discontinue this project and to retain the current ‘not-for-profit entity’ definition in Australian Accounting Standards. The Board noted the initial feedback in response to the Invitation to Comment ITC 37 *The AASB’s Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities* requested more guidance but did not indicate significant issues with the current definition. The Board also recognised that while the majority of the respondents to Exposure Draft ED 291 *Not-For-Profit Entity Definition and Guidance* showed support for the proposals, many raised reservations about the clarity of the implementation guidance, the level of judgement required and the expected transition effort and cost for some entities. The Board acknowledged the stakeholders’ concerns and concluded that the potential benefits of the proposals are unlikely to justify the cost of their implementation.



Service Concession Arrangements: Grantors – Initial Application

The Board decided to propose amending the modified retrospective transition method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 *Service Concession Arrangements: Grantors*, so that the GORTO liability would be measured as at the date of initial application by:

- (a) deducting the carrying amount of any capitalised grantor financial contributions from the current replacement cost of the service concession asset as at the date of initial application; then
- (b) adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and finally
- (c) deducting the fair value of any related financial liability as at the date of initial application.

The Board made this decision to address an issue raised by NSW Treasury that paragraph C4(c) does not specify how financial contributions made by the grantor to the operator prior to the date of initial application are to be treated when measuring the GORTO liability under the modified retrospective transition approach.

The Fatal-Flaw Review Draft version of the amending Standard will be issued shortly with a 30-day comment period.

Insurance Activities in the Public Sector

Scope

The Board decided that it would be helpful to set out clear indicators in AASB 17 *Insurance Contracts* to assist public sector entities in identifying whether their arrangements should be accounted for under AASB 17.

The Board considered the following factors would be useful indicators for that assessment:

- (a) the public sector arrangement covers similar risks and provides similar benefits as those provided by private sector insurers;
- (b) the extent to which an arrangement is binding on the public sector entity, determined (in part) by whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively. An entity may currently have the right to make a retrospective change or a substantively enacted right to make the change;
- (c) the public sector arrangement has an identifiable coverage period;



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- (d) there is a stand-alone binding arrangement, which might incorporate elements contained in statutes or regulation related to the public sector entity's activities;
- (e) the arrangement involves contributions from scheme participants that are related to the risks covered;
- (f) the public sector entity adopts liability management practices normally associated with insurance contracts (such as underwriting and reinsurance of risks accepted from participants); and
- (g) assets are held in a separate fund, or an entity has access to earmarked assets, in order to satisfy benefits when due.

The Board considered the following factors are unlikely to be useful indicators for determining whether a public sector entity has arrangements that should be accounted for under AASB 17:

- (a) classification of an entity as a for-profit entity or a not-for-profit entity;
- (b) the nature of the coverage as fault-based or no-fault-based;
- (c) the practice of an entity in generally assessing the financial performance and financial position of an arrangement on a regular basis; and
- (d) the extent to which claims are assessed to cater specifically for a beneficiary's losses, rather than being broadly determined standardised amounts.

The Board noted that:

- (a) it should not be necessary for the Board to specifically identify particular public sector schemes as being within or outside the scope of AASB 17; and
- (b) it may be useful at some stage to include examples in helping to clarify how the indicators might be applied.

In respect of arrangements with a bundle of services (where some services might be insurance and some might not be insurance), the Board reached the view that AASB 17 includes sufficient guidance to address whether a contract should be unbundled and any distinct services should be accounted for under another Standard.

Risk adjustment for non-financial risk in measuring liabilities for incurred claims

The Board decided that the risk adjustment requirements in AASB 17 did not require any specific public sector modifications. The Board noted that judgement would need to be applied by public sector entities to determine the level of compensation they require for bearing the risk of uncertainty associated with liabilities for incurred claims.



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The Board also decided that public-sector-specific guidance was not required regarding accounting for risk adjustments at the consolidated group level.

AASB Agenda Consultation

The Board is developing an Invitation to Comment (ITC) *AASB Agenda Consultation 2022–2026* that will focus on the suggested potential projects that could be added to the Board's work program. The Board identified the criteria for the inclusion of projects and the assessment of project priorities, which will be included in the ITC.

The Board decided to include the following projects in the ITC for stakeholder feedback:

- (a) inactive AASB projects that are currently on the AASB Work Program:
 - (i) remuneration reporting
 - (ii) supply chain financing agreements – reverse factoring
 - (iii) crowd-sourced equity funding
 - (iv) CCIV legislative review
 - (v) definition of fundraising
 - (vi) long-term discount rates
 - (vii) co-operatives and mutual entities; and
- (b) other potential projects that are aligned with the AASB strategic direction:
 - (i) sustainability reporting
 - (ii) service performance reporting
 - (iii) digital reporting.

This list of projects is not exhaustive – the ITC will address additional potential projects as well.

The Board also decided to seek input from stakeholders on the AASB research program as part of the agenda consultation. The ITC is expected to be published in September 2021.

Post-Implementation Review of IFRS 10, 11 and 12

The Board decided to provide the following feedback to the IASB on its Request for Information *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities*.



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In relation to IFRS 10, the Board will suggest the IASB:

- (a) consider including additional illustrative examples and detailed educational guidance to assist with the application of certain complex and judgemental requirements. For example, to:
 - (i) clarify how to identify an investee's relevant activities where it has multiple phases during its life and different investors have decision-making rights in different phases; and
 - (ii) clarify how the requirements for determining whether a decision-maker is a principal or an agent apply to fund managers;
- (b) revisit the guidance on determining whether decision-making rights are protective or substantive, in particular for franchise arrangements. The Board will also suggest the IASB removes statements that imply franchisor rights are normally protective. This is because, in practice, it is not uncommon for franchisors to direct most of their franchisees' activities, so that the franchisor's decision-making rights are often substantive rather than protective;
- (c) consider whether additional guidance on applying the IFRS 10 requirements to de-facto agency relationships is warranted, subject to this issue being prevalent in other jurisdictions;
- (d) consider expanding the principles in IFRS Standards to address accounting for changes in ownership interests more holistically, which would increase consistency; and
- (e) consider whether there is merit in reconsidering the investment entity exception to consolidation. This is because fair value accounting in this case appears to be inconsistent with the accounting principles in other IFRS Standards and users have expressed concerns about the potential loss of information arising from investment entity accounting. The Board will also suggest the IASB clarify the requirements for an exit strategy, including guidance about assessing whether an exit strategy is genuine.

In relation to IFRS 11, the Board will:

- (a) share feedback with the IASB about how entities account for collaborative arrangements, noting that collaborative arrangements are not within the scope of IFRS 11 typically due only to the lack of a requirement for unanimous consent of the parties;
- (b) suggest the IASB consider providing principles to assist with determining when a separate vehicle exists, in order to reduce diversity in practice; and
- (c) share feedback from users that proportionate consolidation provides them with more useful information than the equity method of accounting. The Board will also note that users also indicated that financial statements do not provide sufficient information about the assets and



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liabilities of investees. Finally, while acknowledging that the IASB considered the withdrawal of proportionate consolidation at length, the Board will suggest the IASB consider the benefits and disadvantages of the equity method of accounting versus proportionate consolidation as part of the IASB project on the equity method of accounting.

In relation to IFRS 12, the Board will suggest the IASB revisit certain disclosures to improve the information disclosed in financial statements. For example, the Board will suggest the IASB consider requiring additional disclosures about subsidiaries with material non-controlling interests, the potential dilution of ownership interests due to outstanding shares and individually immaterial equity-accounted investments that are of significance.

Going Concern

After considering the views of a range of Australian and international stakeholders on the adequacy of current going concern disclosure requirements in IAS 1 *Presentation of Financial Statements*, the Board decided to recommend the IASB to revisit IAS 1 and to include specific examples and more explicit guidance to preparers on how to assess going concern as Application Guidance, Implementation Guidance or Illustrative Examples. The Board noted that this would be the most appropriate option for addressing the issue because the accounting standards are the primary reference point for preparers and would give more prominence and authority to the guidance.

The Board also decided to recommend the IASB add to its work program a research project to understand better the impact of the lack of guidance on the basis of preparation when an entity is not a going concern, including the extent of diversity in practice, to determine whether standard-setting action is needed.

The Board agreed that the above recommendations to the IASB should be included in the proposed AASB Staff Thought Leadership Paper and the AASB's submission to the IASB on its Agenda Consultation. The Board supported the proposed outline of the staff paper and the timeline for the project. A working draft of the staff paper will be considered at the next Board meeting.

Intangible Assets Research

Professor Baljit Sidhu presented to the Board on the results of recent research she and her colleagues (Shawn Ho and Fan Yang) at the University of Sydney Business School have undertaken into the impact on Australian companies of AASB 138 *Intangible Assets* disallowing recognition of certain internally generated intangible assets. The Board noted the research will provide important input to the AASB's Intangible Assets project.

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The Board received an update on that project, the output of which is expected to be input to the IASB's Third Agenda Consultation in Q3 2021 and, ultimately, the publication of an AASB Staff Thought Leadership Paper in Q4 2021.

The Board decided the staff paper should continue to be developed and should include:

- (a) consideration of the views of Australian and other comparative national jurisdictions' users and preparers of financial statements in the for-profit, not-for-profit, private and public sectors. In relation to preparers, the paper should also consider the reasons preparers elect not to make the voluntary disclosures encouraged by AASB 138 (and IAS 38); and
- (b) acknowledgement of the growing differences between book values and market capitalisations for intangible asset-intensive listed companies, but that those differences should not be a driving factor in determining any improvements in accounting requirements.

Research Update

The Board noted a report of recent Research Centre activities, including:

- (a) planning for the November 2021 AASB Academic Research Forum; and
- (b) a review of Australian peer-reviewed academic literature relevant to Board activities.

Recently Approved Documents

Since last reported (1 March 2021), 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)
29 March 2021	AASB 2021-1 <i>Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities</i>	1 July 2021
30 March 2021	AASB 2021-2 <i>Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates</i>	1 January 2023
8 April 2021	ED 309 <i>Disclosure Requirements in Australian Accounting Standards—A Pilot Approach</i>	16 August 2021
15 April 2021	ITC 44 <i>Request for Comment on the IASB Request for Information on Third Agenda Consultation</i>	16 August 2021



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Date Approved	Document	Effective Date (Standards/Int'ns) or Due Date for Submissions (EDs)
21 April 2021	AASB 2021-3 <i>Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021</i>	1 April 2021

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.

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	closed	10 May 2021
IASB	ED/2021/1 Regulatory Assets and Regulatory Liabilities	ED 307	10 May 2021	30 July 2021
IFRS IC	Tentative Agenda Decision: Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)	n/a	n/a	24 May 2021
IFRS IC	Tentative Agenda Decision: Non-refundable Value Added Tax on Lease Payments (IFRS 16)	n/a	n/a	24 May 2021
IASB	Discussion Paper DP/2020/2 Business Combinations under Common Control	ITC 42	17 July 2021	1 September 2021
IASB	Request for Information: IASB Third Agenda Consultation	ITC 44	16 August 2021	27 September 2021
IASB	ED/2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach	ED 309	16 August 2021	21 October 2021
IPSASB	ED 75 Leases and Request for Information Concessionary Leases and Other Arrangements Similar to Leases	n/a	n/a	17 May 2021



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AASB 2021 Scheduled Board Meeting Dates

21-22 June

8-9 September

10-11 November

June 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

Management Commentary

IPSASB Exposure Drafts on Public Sector Measurement

Insurance Activities in the Public Sector

AASB Agenda Consultation

Going Concern

Regulatory Assets and Liabilities