



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 179
23 June 2016

Welcome to the AASB Action Alert

The AASB Board met in public on 21-22 June 2016. At the meeting the Board made key decisions in relation to:

- [Income of NFP Entities](#)
- [Service Concession Arrangements: Grantor](#)
- [Insurance Contracts](#)
- [Reduced Disclosure Requirements](#)

The Board also discussed the following topics:

- [Financial Reporting Framework](#)
- [Public Sector Combinations](#)
- [International Projects](#)
- [Research Update](#)
- [Emerging Issues](#)
- [AASB Agenda Consultation](#)
- [Classification and Measurement of Shared-based Payment Transactions](#)

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Income of NFP Entities

The Board tentatively decided:

Project objective

- (a) to re-express the projective objective as “to develop a not-for-profit sector Accounting Standard that provides a basis for accounting for resource inflows and, where needed, develop not-for-profit sector specific guidance”.

The not-for-profit sector Standard [draft] AASB 10XX *Not-for-Profit Entity Transactions* will, as the ‘starting point’ for entities in this sector:

- (i) provide guidance as to when control of a resource is obtained;
 - (ii) include ‘signposts’ to relevant existing Accounting Standards that entities should apply; and
 - (iii) replace the income recognition requirements of AASB 1004 *Contributions* with new income recognition principles for transactions that are not within the scope of existing Standards (e.g. AASB 15 *Revenue from Contracts with Customers*);
- (b) to develop guidance to assist in the implementation of AASB 15;

Perpetual endowments

- (c) not to develop any new principles in relation to perpetual endowments but, rather, include examples that clearly refer back to the principles established in AASB 10XX;
- (d) to include guidance in relation to determining whether an entity has control of an endowment:
- (i) an example where the asset is the cash received and an example where the asset is the ‘right to investment income’;
 - (ii) an example of when the NFP entity does have the ability to direct the use of a resource and an example of when it does not;
 - (iii) guidance that analogises to the Framework definition of an asset;



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- (iv) a signpost to AASB 9 *Financial Instruments* in relation to control for individual financial assets;
 - (v) a signpost that if an entity receives an inflow of a resource as a trustee, the requirements of AASB 10 *Consolidated Financial Statements* are relevant to determine whether the entity has control. Staff to draft examples of when the NFP entity holds the 'asset' as trustee, when the 'asset' is held by an external independent trustee and the NFP entity is the sole beneficiary and, for completeness, an example when the NFP entity itself holds the 'asset'; and
 - (vi) two examples, one example where there is no specific obligation as the basis for revenue deferral and another example where there is;
- (e) to include guidance that the fair value of the rights to future income would normally be equal to the face value of the perpetual endowment;

Capital grants

- (f) grants of cash that must be used to acquire or construct a non-financial asset, and have a return obligation if not spent appropriately, are to be accounted for within the scope of AASB 10XX and a new principle developed to clarify the accounting for these arrangements. The principle will express the view that where there is a return obligation and clear requirements to build or construct an asset to specifications under the grant, and in substance the arrangement is a grant of a non-financial asset, there are obligations attaching to the receipt of the cash and, as such, no revenue is recognised until such time as the obligations are satisfied (e.g. as the non-current asset is constructed). As there are arguments that there is no transfer of goods and services in these arrangements, the Board decided that using AASB 15 may not obtain the outcome of recognising the cash and deferred income on initial recognition. Accordingly AASB 10XX will draw upon the principles of AASB 15 but without the need for a transfer of goods or services to a customer;
- (g) to develop examples illustrating the revenue recognition principle above;

Transition

- (h) that comparative information will be encouraged, but not required, in the year of first application;



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- (i) to ensure existing grants that have been fully recognised in income need not be reconsidered (unless an entity chooses to do so), include an 'Aus' paragraph in AASB 15 that for a NFP entity on transition "a completed contract is a transaction for which the entity has recognised all of the revenue in accordance with AASB 1004" and that a similar 'Aus' paragraph refer to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;
- (j) for existing peppercorn leases:
 - (i) that AASB 10XX replicate the practical expedients in AASB 16 *Leases*; and
 - (ii) the lessee have an option to measure the carrying amount of the right-of-use asset at the date of initial application of AASB 10XX at fair value. The Board did not conclude whether this would be on a lease-by-lease basis or another basis and asked staff to research this issue and bring back to the next meeting. The finalised Standard would 'signpost' to the requirements of AASB 13 *Fair Value Measurement* in relation to the effect of restrictions on fair value, and AASB 16 *Property, Plant and Equipment* in relation to the definition of a lease.

Service Concession Arrangements: Grantor

The Board tentatively decided the Standard on *Service Concession Arrangements: Grantor* should include the following guidance where the operator's compensation is based on the usage of the service concession asset (i.e. no minimum guaranteed amount):

- (a) account for the arrangement using the financial liability model, and not the grant of the right to the operator model;
- (b) initially recognise the financial liability at the fair value of the service concession asset; and
- (c) subsequent to the initial recognition, account for the financial liability in accordance with AASB 9 requirements, including those for determining and using the effective interest rate, changes in expectations of future cashflows, and modifications to agreements.

The Board noted that accounting for the arrangement as a financial liability by the grantor may result in asymmetry in accounting by the operator for the same transaction. However, the Board decided that the principles appropriate to the specific Standard are more important than achieving symmetry in accounting by parties to an arrangement.



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The Board reaffirmed its previous tentative decision that the scope of the Standard should apply to all public sector entities comprising both for-profit and not-for-profit entities. The Board noted it is highly unlikely that a for-profit entity in applying the Standard in accounting for the grant of the right to the operator model will be able to make an explicit and unreserved statement that its financial statements comply with IFRS.

The Board further decided, instead of providing a definition of 'public service', the Standard is to include indicators and examples to demonstrate the existence of 'service to the public'. The Board requested staff to develop indicators and examples for discussion at the next Board meeting.

Insurance Contracts

The Board noted that the IASB has completed its substantive decision making on a forthcoming revised IFRS 4 *Insurance Contracts* that, if adopted, would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The Board:

- (a) received an education session on the IASB's decisions and plans to finalise a revised IFRS 4, including issues that might be resolved as part of the drafting process;
- (b) noted key issues from ED/2013/7 *Insurance Contracts* on which the AASB had commented and more recently advocated and the IASB's subsequent decisions;
- (c) noted issues of potential significance to the public sector; and
- (d) noted the next steps involved in completing a revised AASB 4, including the independent review process that would need to be performed to meet best practice regulation requirements.

The Board noted that the revised IFRS 4 proposals will significantly improve current accounting by international insurers, and that in context, the proposals are likely to mean less change for Australian entities than their international counterparts. Based on the information available at this stage, the Board members indicated that, while some aspects of the forthcoming revised IFRS 4 might be backward steps for Australian financial reporting, it may also result in some improvements, and there are expected to be benefits for Australia from applying a comprehensive revised IFRS for insurance contract accounting. Accordingly, none of the Board members present indicated that they plan to dissent from making a revised AASB 4 using the forthcoming revised IFRS 4.



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The time of completion of the forthcoming revised IFRS 4 remains uncertain, but is expected to be in the first half of 2017 and Board members will have further opportunities to consider the forthcoming revised IFRS 4.

The Board asked staff to:

- (a) prepare a more detailed paper for presentation at the next Board meeting on whether any differences from the revised IFRS 4 might be justified for public sector insurers, following more stakeholder engagement with that sector;
- (b) prepare a paper for presentation at the next Board meeting on how the Board might approach the issue of asset measurement in a revised AASB 4, in view of the existing Australian requirements to account for assets backing insurance liabilities at fair value through profit or loss;
- (c) ensure there is communications material available that highlights the significant areas in which the revised IFRS 4 is expected to result in changes to Australian financial reporting; and
- (d) conduct a webinar on the forthcoming revised IFRS 4 to help ensure that the relevant Australian stakeholders are aware of, and informed about, the significant likely changes.

Reduced Disclosure Requirements

The Board agreed the draft joint Australian and New Zealand Policy Statement for Determining RDR for Tier 2 Entities be finalised for comments provided by joint RDR Subcommittee members.

The Board also noted the progress in the preparation of the analysis of AASB Standards based on the RDR Decision Making Framework and asked AASB staff to prepare an Exposure Draft of Reduced Disclosure Requirements for consideration at a future meeting.

Financial Reporting Framework

Staff outlined the continuing development of benchmarking reports regarding financial reporting requirements for for-profit and not-for-profit entities in the private and public sectors. These reports will provide a basis for further consultation with regulators and other stakeholders.

Public Sector Combinations

The Board requested staff amend the draft comment letter on IPSASB Exposure Draft ED 60 *Public Sector Combinations* to include comments regarding the treatment of reserves in accounting for amalgamations and finalise the letter through the Chair.



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International Projects

The Board noted developments in a number of international standard-setting projects but did not identify any issues to raise at this stage.

Research Update

The Board noted the research work program and recent Research Centre activities including:

- (a) the extensive stakeholder outreach conducted in May and June for the review of IFRS adoption in Australia in Melbourne, Sydney, Canberra, Brisbane, Adelaide and Perth;
- (b) the presentation of the AASB's research work program and approach and promotion of collaboration with academics conducted in May and June in Melbourne, Sydney, Canberra, Brisbane, Adelaide and Perth;
- (c) planning for the 2016 AFAANZ conference, including presentations at the Accounting Standards Special Interest Group on recent AASB activities and at the AFAANZ conference itself on recent developments with the conceptual framework;
- (d) planning for the AASB Academic Research Forum in Sydney on 24 November 2016 and an AASB User Forum in Sydney on 25 November 2016;
- (e) progress on the joint research with the Korea Accounting Standards Board on IFRS 'terms of likelihood' – now expected to be published in July 2016; and
- (f) a submission by the Office of the AASB to the Australian Research Council on its Consultation Paper *Engagement and Impact Assessment* to be completed this week.

Emerging Issues

The Board noted that there is likely to be diverse accounting treatment for items such as "bitcoin" and agreed to consider further how to support Australian constituents to seek clarification from the IASB Interpretations Committee.

AASB Agenda Consultation

The Board received an update of the AASB Agenda Consultation project and noted the following high-level themes from feedback received to date:



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- (a) strong support for progressing the Australian Financial Reporting Framework project;
- (b) strong support for a project on clarifying the application of AASB 13 Fair Value Measurement for not-for-profit entities, including further consideration of applicable disclosures;
- (c) general agreement with continuing with projects on the AASB's current standard-setting work program;
- (d) that the AASB should consider whether it should do more to assist the implementation of accounting standards by smaller and medium sized entities (e.g. guidance, education);
- (e) some support for post-implementation reviews of certain public sector specific requirements, including AASB 1055 Budgetary Reporting; and
- (f) some support for the AASB undertaking further external reporting projects, particularly assisting Treasury to improve remuneration reporting.

Classification and Measurement of Shared-based Payment Transactions

The amendments to AASB 2 *Share-based Payment* to incorporate the IASB's *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)* will be finalised out of session and will apply to annual periods beginning on or after 1 January 2018.

Recently Approved Documents

Since last reported, the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
11 May 2016	AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	1 January 2018

Documents Open for Comment

There are no documents currently open for comment. AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.



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Upcoming meetings and events

30-31 August 2016	AASB Meeting
24 November 2016	Academic Research Forum
25 November 2016	Investor Forum

AASB 2016 Scheduled Board Meeting Dates	30-31 August 2016 AASB meeting
	At the next Board meeting it is expected the Board will deal with the following items:
30-31 August 2016	<ul style="list-style-type: none">• Income of NFP Entities• Service Concession Arrangements Grantor• AASB Agenda Consultation• Revision of RDR• Reduced Disclosure Requirements• AASB Agenda Consultation• Insurance Contracts
18-19 October 2016	
13-14 December 2016	