



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 177
24 February 2016

Welcome to the AASB Action Alert

The AASB made key decisions in relation to:

- [Leases](#)
- [ED 269 Recoverable Amount of Non-cash generating Specialised Assets for Not-for-profit Entities](#)
- [Income of NFP Entities](#)
- [Service Concession Arrangements: Grantor](#)
- [Disclosure Initiative – Amendments to AASB 107 Statement of Cash Flows](#)
- [Recognition of Deferred Tax Assets for Unrealised Losses](#)

The Board also discussed the following topics:

- [Australian Charities and Not-for-profits Commission \(ACNC\) strategic plan](#)
- [Reduced Disclosure Requirements](#)
- [Annual Improvements to IFRSs 2014-2016 Cycle](#)
- [Financial Reporting Framework](#)
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The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions. © Australian Accounting Standards Board, 2016.



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Leases

The Board approved AASB 16 *Leases*, applicable for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted provided AASB 15 *Revenue from Contracts with Customers* is also applied

ED 269 Recoverable Amount of Non-cash generating Specialised Assets for Not-for-profit Entities

The Board tentatively decided to:

- proceed with removing references to depreciated replacement cost as a measure of value in use from AASB 136 *Impairment of Assets*; and clarifying the role of AASB 13 *Fair Value Measurement* in determining the recoverable amount of non-cash generating specialised assets of not-for-profit entities
- specify an impairment test is no longer required when non-cash generating specialised assets of NFP entities are measured at fair value; and
- note in the Basis for Conclusions that current replacement cost (CRC) under AASB 13 *Fair Value Measurement* is the CRC of the remaining service capacity of the target asset; and costs to change the target asset to a marketable asset, such as rezoning and decommissioning costs, are not disposal costs.

An Amending Standard will be approved out of session.

The Board also agreed that any necessary guidance in relation to the cost approach under AASB 13 should be part of a fair value project.



Income of NFP Entities

The Board tentatively decided, in the context of recognising revenue when receiving assets:

- (a) moral obligations and economic compulsion alone are not liabilities;
- (b) arrangements between sovereign States or between an asset provider and recipient, requiring mutual agreement on how funds/assets can be used, are enforceable by an administrative process and therefore in the scope of AASB 15 *Revenue from Contracts with Customers*;
- (c) Enforceable contracts including transfers of goods and services are in the scope of AASB 15; and
- (d) Constructive obligations, arising from non-enforceable agreements outside the scope of AASB 15, should only be recognised when there is no realistic alternative to settling and there is a sufficiently specific promise, consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The Board does not expect that this would give rise to many deferrals.

Staff will develop illustrative examples to explain these tentative decisions.

Service Concession Arrangements: Grantor

The Board decided to retain the measurement approach in ED 261 *Service Concession Arrangements: Grantor*. ED 261 proposed the grantor initially measures the service concession asset at fair value with the liability measured at the same amount as the service concession asset. The Board decided the final Standard should clarify the service concession asset is a specialised asset that the grantor uses for its service potential to achieve public service objectives. Consequently, only the cost approach to measuring the fair value of service concession assets is relevant and in this specific instance, that where the operator has been granted the rights to future cash flows, this need not be considered in the valuation.

The Board confirmed the proposal that, under the grant of the right to the operator model, the grantor would recognise revenue, and accordingly reduce the liability, in accordance with the economic substance of the arrangement.

The Basis for Conclusions will include the Board's consideration of alternative measurement approaches, including applying:

- (a) AASB 140 *Investment Property* by analogy;
- (b) the licensing Application Guidance in AASB 15 *Revenue from Contracts with Customers* by analogy; and
- (c) the financial liability model to all service concession arrangements.



Disclosure Initiative – Amendments to AASB 107 Statement of Cash Flows

The Board agreed to amend AASB 107 to require disclosures explaining changes in liabilities classified as financing activities in the Statement of Cash Flows, incorporating International Financial Reporting Standard *Disclosure Initiative (Amendments to IAS 7)*. The amendments will be finalised out of session and apply to annual periods beginning on or after 1 January 2017.

The Board decided not to make a not-for-profit specific amendment. While the additional disclosure may be of less relevance to users of not-for-profit public sector entity, the benefits of compliance with the IFRS will outweigh the costs of making the additional disclosure.

The Board further decided the new disclosures should be excluded from Tier 2 reporting requirements. The Board considered that entities were likely to satisfy the disclosure requirement in the form of a reconciliation similar to that exposed in ED 258, which was exempted for Tier 2. Accordingly the Board was satisfied that sufficient due process in this regard has been performed.

The Board noted that it intends to revisit all Tier 2 reporting requirements in AASB 107 as part of its Reduced Disclosure Requirements project.

Recognition of Deferred Tax Assets for Unrealised Losses

The Board approved amendments to AASB 112 Income Taxes clarifying the recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value, incorporating International Financial Reporting Standard *Recognition of Deferred Tax Assets for Unrealised Losses*. The amendments apply to annual periods beginning on or after 1 January 2017.

The Board also decided that no specific not-for-profit amendment to the IFRS is necessary, as the amendments clarify an existing AASB 112 principle. The Board noted that the Amending Standard does not introduce any ongoing new disclosure requirements, and accordingly, no amendments are required to Tier 2 reporting requirements.

Australian Charities and Not-for-profits Commission (ACNC)

The Board received an update from Susan Pascoe, Commissioner of the ACNC, on the ACNC's Strategic Plan 2015-18. This included discussions of the ACNC's strategic goal around supporting the adoption of sector specific accounting standards, which is likely to be interrelated with the AASB's work on the Australian Financial Reporting Framework and review of IFRS adoption.



Reduced Disclosure Requirements (RDR)

The Board tentatively decided to:

- (a) retain paragraphs that provide guidance on disclosures for Tier 2 entities;
- (b) specifically seek feedback on a new approach of identifying Tier 2 disclosures in an appendix for each Standard;
- (c) when a Standard does not have separate sections for disclosure and presentation requirements, include both presentation and disclosure requirements in the Tier 2 appendix. Feedback will be sought on this proposal; and
- (d) reduce disclosures in a Standard relating to accounting policies on recognition or measurement because the disclosure requirements in AASB 101 & AASB 108 are sufficient.

The Board noted:

- (a) the reduction of significant estimates and judgements disclosures specific to a transaction or event because the disclosure requirements of AASB 101 & AASB 108 are sufficient needs to be reconsidered;
- (b) the post-implementation review of the current reduced disclosure requirements for Tier 2 entities will be included in the ED; and
- (c) notwithstanding the RDR project is a joint project with the NZASB, a joint ED would not be issued. The Board noted the only difference is the NZASB does not intend to use the appendix approach to presenting disclosures for Tier 2 entities.

The Board expects to vote on an ED at the April 2016 meeting.

Annual Improvements to IFRSs 2014-2016 Cycle

The Board generally supported the proposals in the IASB Exposure Draft ED/2015/10 *Annual Improvements on IFRS 2014 – 2016 Cycle*, noting the AASB submission on the ED should:

- (a) comment that determining the “not applicable” dates referred to in the Basis for Conclusions of the ED is not straightforward;
- (b) recommend introducing “sunset clauses” for future short-term exemptions; and
- (c) recommend deleting the footnote to paragraph 44G of IFRS 7 *Financial Instruments: Disclosures*.



Financial Reporting Framework

The Board supported the general view expressed at roundtables held in January that there is scope for improving the application of financial reporting requirements for not-for-profit entities in the private and public sectors. The roundtables discussed many aspects, including reporting thresholds and the possibility of adding a third tier of reporting requirements. Summaries of the roundtable discussions will be published on the AASB website. The Board noted the importance of ongoing consultation with a broad range of stakeholders as the project progresses. No decisions were made.

ED 272 Transfers of Investment Property

The Board generally supported the proposals in ED/2015/9 *Transfers of Investment Property*. The Board decided its submission should agree with the proposed amendments to:

- (a) allow transfers to and from investment property where there is evidence of a change in use; and
- (b) re-characterise the list of circumstances in IAS 40 *Investment Property* evidencing that a change in use has occurred as a non-exhaustive list.

However, the Board decided to support prospective, rather than retrospective, application of the proposed amendments. The Board considered prospective application to be more appropriate to avoid hindsight in identifying a change in circumstances and in the measurement of the investment property.

Presentation on Australian Public Sector

The Board received a presentation on the Australian public sector structure and reporting requirements from Peter Gibson, AASB member and Assistant Secretary, Financial Reporting and Accounting in the Commonwealth Department of Finance and Deregulation.

Disclosure Initiative – Materiality Practice Statement

The Board decided its comment letter on IASB Exposure Draft ED/2015/8 *IFRS Practice Statement: Application of Materiality to Financial Statements* should:

- (a) support issuing guidance on materiality in the form of a non-mandatory Practice Statement, given the jurisdictional issues and the current form of the document. The Board also decided to acknowledge in its comment letter that some Australian constituents would prefer guidance on materiality be issued in a form other than a Practice Statement;



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- (b) note that it considers the examples in the ED to be helpful, but that further examples that address more challenging circumstances where the materiality assessment is more subjective would be more helpful;
- (c) support the proposal to issue the Practice Statement before the finalisation of the IASB's *Principles of Disclosure* project, but note that it may be better to delay issue until finalising the revised *Conceptual Framework for Financial Reporting* to avoid the need to make consequential amendments to the Practice Statement; and
- (d) support not including quantitative thresholds for materiality, as these should be entity-specific, but encourage the IASB to provide further guidance to assist entities to determine appropriate quantitative thresholds. However, the Board decided to acknowledge in its comment letter that some Australian constituents would prefer including quantitative thresholds.

The Board also noted instances where the content of the ED could be improved or clarified, and where guidance could be added to provide a more balanced view. The comment letter will encourage the IASB to address the interaction of materiality principles with IAS 34 *Interim Financial Reports*, IFRS 8 *Segment Reporting* and IFRS terminology that implies materiality such as 'significant'.

The Board decided that the IASB had sufficiently addressed the interaction between materiality in accounting and auditing standards.

The Board will finalise its comment letter out-of-session.

In addition, the Board directed staff to undertake research on how Australian regulators have interpreted the concept of materiality (for example, whether the quantitative thresholds in superseded AASB 1031 *Materiality* continue to be referenced) and what legal interpretations have occurred. The Board expects this research to eventuate in a staff publication.

Review of IFRS adoption in Australia

Dr Nicholas Pawsey presented a literature review of IFRS adoption in Australia. The Board plans to publish the literature review as an AASB Research Report in May 2016. The Board noted the lines of enquiry staff should address when they conduct outreach on the impact of IFRS adoption on for-profit and not-for-profit entities between April and June.



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Research Update

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

- (a) Finalising a literature review of IFRS adoption in Australia, and commencing outreach on the impact of IFRS adoption in Australia from late April to June 2016;
- (b) presenting an update of the joint research with the Korea Accounting Standards Board on IFRS 'terms of likelihood' at the IFASS meeting in April 2016, with the final report expected in May; and
- (c) hosting the next AASB Academic Advisory Panel meeting on 1 April 2016 to have Panel members identify relevant research in areas of interest to the AASB and ASAF; promote collaboration with the AASB and consider the AASB's possible role in education.

International Projects

The Board decided:

- (a) to defer further consideration of AASB ED 254 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* in response to the IASB's decision not to finalise those proposals but incorporate them into the post-implementation review of IFRS 13 *Fair Value Measurement*; and
- (b) to make submissions on the IPSASB's exposure drafts ED 59 *Amendments to IPSAS 25* and ED 60 *Public Sector Combinations*.

Strategic Plan Update

The Board noted that a number of key performance indicators for the AASB's strategic directions had been achieved, and the majority of those remaining are on track.

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Recently Approved Documents

Since last reported 8 February 2016, the Board has approved the following Standards and Exposure Drafts:

| Date Approved | Document | Effective Date (Standards) Due Date for Submissions (EDs) |
|------------------|--|--|
| 20 November 2015 | Exposure Draft ED/2015/10 <i>Annual Improvements to IFRSs 2014-2016 Cycle</i> | 22 January 2016 |
| 20 November 2015 | Exposure Draft ED/2015/9 <i>Transfers of Investment Property</i> | 15 February 2016 |
| 11 December 2015 | Exposure Draft ED/2015/11 <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> | 18 January 2016 |
| 22 December 2015 | AASB 2015-10 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128</i> | 1 January 2016 |

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.

| Originating Organisation | Document | AASB No. | AASB Due Date | Other Organisation Due Date |
|--------------------------|--|----------|---------------|-----------------------------|
| AASB | AASB 2015 Agenda Consultation | ITC 34 | 4 March 2016 | |
| AASB | <i>Reporting Service Performance Information</i> | ED 270 | 29 April 2016 | |
| IPSASB | Exposure Draft 59 <i>Amendments to IPSAS 25, Employee Benefits</i> | - | - | 30 April 2016 |
| IPSASB | Exposure Draft 60 <i>Public Sector Combinations</i> | - | - | 30 June 2016 |
| IPSASB | Exposure Draft 61 <i>Amendments to Financial Reporting Under the Cash Basis of Accounting (the Cash Basis IPSAS)</i> | - | - | 31 July 2016 |



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Upcoming meetings and events

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|------------------|---|
| 8-11 March 2016 | International Public Sector Accounting Standards Board (IPSASB) |
| 14-15 March 2016 | International Public Sector Standard Setters |
| 4-5 April 2016 | International Forum of Accounting Standard Setters (IFASS) |
| 7-8 April 2016 | Accounting Standards Advisory Forum (ASAF) |
| 19-20 April 2016 | AASB Meeting |

| AASB 2016 Scheduled Board Meeting Dates | 18-19 April 2016 AASB meeting At the next Board meeting it is expected the Board will deal with the following items: |
|--|--|
| 23-24 February 2016 | <ul style="list-style-type: none">Income of NFP entities |
| 18-19 April 2016 | <ul style="list-style-type: none">Service Concession arrangements |
| 21-22 June 2016 | <ul style="list-style-type: none">Reduced Disclosure Requirements |
| 30-31 August 2016 | <ul style="list-style-type: none">Financial Reporting Framework |
| 18-19 October 2016 | <ul style="list-style-type: none">Share-based Payments |
| 13-14 December 2016 | <ul style="list-style-type: none">AASB Agenda Consultation |
| | <ul style="list-style-type: none">Insurance |