



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 180

1 September 2016

Welcome to the AASB Action Alert

The AASB Board meeting on 30-31 August 2016 resulted in key decisions for:

- [Income of Not-for-Profit Entities](#)
- [Insurance Contracts](#)

The Board also discussed the following topics:

- [AASB Agenda Consultation](#)
- [Research Updates](#)
- [International Consultation Documents](#)
- [Review of IFRS Adoption](#)
- [Research on Corporate Reporting Thresholds](#)

Income of Not-for-Profit Entities

The Board made the following tentative decisions regarding its draft Standard AASB 10XX *Income of Not-for-Profit Entities* and implementation guidance for not-for-profit (NFP) entities in relation to AASB 15 *Revenue from Contracts with Customers*:

Effective date

- (a) to defer by one year the effective date of AASB 15 (including the NFP implementation guidance) and AASB 10XX for public sector NFP entities and private sector NFP entities, from annual reporting periods beginning on or after 1 January 2018 to 1 January 2019;

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Public fatal-flaw review process

- (b) a revised draft Standard AASB 10XX and implementation guidance will be published on the AASB website in September for a fatal-flaw review process;

Asset measurement guidance

- (c) to remove the asset recognition and measurement guidance in AASB 10XX and insert specific Australian guidance into relevant Australian Accounting Standards that where the consideration relating to the asset received is significantly less than the fair value of that asset to enable the entity to further its objectives, the asset must be fair valued in accordance with AASB 13 *Fair Value Measurement*. (This currently applies only when the asset is acquired at no or nominal cost). In such cases, the entity will need to refer to AASB 10XX to determine how to account for the difference between the transaction price and the fair value of the asset, which may be a contribution by owners, a liability, a performance obligation under AASB 15 or income. Acquisitions of assets through a trade discount or distress sale will not be captured for the purposes of AASB 10XX;

Leases with significantly below-market terms and conditions

- (d) to clarify that the right-of-use asset is to be measured at fair value, whether a finance lease under AASB 117 or a right-of-use asset under AASB 16, and the lease liability is measured in accordance with AASB 117 or AASB 16 (typically at the much lower present value of the lease payments). The difference will generally be income in accordance with AASB 10XX or in rare circumstances a performance obligation in accordance with AASB 15;
- (e) to provide transition guidance for entities that early adopt AASB 10XX to:
 - (i) permit entities to continue to apply the requirements of AASB 117 *Leases* to operating leases until such time as the entity adopts AASB 16 *Leases*; and
 - (ii) require entities to measure the lease asset under existing finance leases and new finance leases entered into prior to adopting AASB 16 at the fair value of the right to use that asset in accordance with AASB 13. The date at which fair value is measured will depend on which AASB 10XX transition option an entity elects to apply. Entities that adopt AASB 10XX early in conjunction with AASB 117 will not be required to remeasure the fair value of existing finance leases on transition to AASB 16;



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- (f) to insert transition guidance into AASB 16 to ensure that:
 - (i) entities measure the right-of-use asset arising from operating leases at fair value;
 - (ii) entities measure the right-of-use asset arising from finance leases at fair value. However, entities that early adopted AASB 10XX would be permitted to measure the right-of-use asset at the carrying amount of the finance lease asset immediately prior to transition to AASB 16; and
 - (iii) the date at which fair value is measured will depend on which AASB 16 transition option an entity elects to apply;
- (g) to provide a portfolio measurement approach as a practical expedient on transition to AASB 16.

Donated inventory

- (h) to permit an entity to assess the materiality of the inflow of inventory acquired at no cost either on an individual transaction basis only or on a portfolio or aggregate basis. Entities would be encouraged to disclose information about their reliance on unrecognised donated inventories;

Volunteer services

- (i) to confirm the approach proposed in ED 260 that local governments, government departments, general government sectors and whole of governments will recognise volunteer services if the fair value of those services can be measured reliably and the services would have been purchased if they had not been donated. Furthermore, any entity can elect to recognise volunteer services if their fair value can be measured reliably, and an entity should consider disclosing recognised volunteer services as a category of income;
- (j) to encourage entities to disclose information about their reliance on volunteer services, recognised and unrecognised;

Licences

- (k) to amend the scope of AASB 10XX to exclude licences outside the scope of AASB 15. Under this approach, an entity would apply AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in determining its accounting policies for such licences, which might result in applying the licence provisions of AASB 15 by analogy or the requirements of AASB 10XX;



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- (l) noted that a separate project to research the types of government licences and their accounting treatment under AASB 10XX and AASB 15 is to be considered as part of the agenda consultation process based on AASB Invitation to Comment ITC 34;

Disclosures

- (m) to confirm the disclosures proposed in ED 260 for the disclosure of parliamentary appropriations;
- (n) to include additional disclosure requirements for 'capital grants' that are consistent with the disclosures in AASB 15;
- (o) to encourage entities to disclose information about externally imposed restrictions, with examples of ways this could be done, such as:
 - (i) disclosure of assets to be used for specified purposes;
 - (ii) disclosure of reserves divided into restricted and unrestricted amounts;
 - (iii) disclosure of total comprehensive income divided into restricted and unrestricted amounts, either on the face of the statement of performance or in the notes; or
 - (iv) a combination of these disclosures;

Disclosures in AASB 15

- (p) not to make any specific disclosure reductions for Tier 2 NFP entities applying the Reduced Disclosure Requirements; and
- (q) not to make any specific disclosure reductions for Tier 1 NFP entities, including the Australian Government and State, Territory and Local Governments.

Insurance Contracts

Asset measurement

In order to allow insurers flexibility to choose asset measurements that remove potential accounting mismatches with insurance liability measurement, the Board agreed not to retain the existing asset measurement requirements (in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*) requiring assets to be measured at fair value whenever permitted by other standards.



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Public sector insurers

The Board decided that it will clarify the scope of the forthcoming new AASB insurance standard for public sector entities, to ensure similar activities are treated similarly. The Board asked staff to:

- (a) conduct more thorough outreach through HoTARAC members and with the affected entities directly; and
- (b) prepare a possible exposure draft that would make proposals about the types of arrangements to be accounted for using insurance standards, which would be intended to take effect under the forthcoming AASB standard.

The Board noted there may be a need to address the interaction of the likely contract boundary and onerous contract requirements. If the impact of the forthcoming new AASB insurance standard would be to require public sector insurers to account for some sub-groups of annual contracts as if they were long-term (possibly perpetual) contracts using the 'general model' for liability measurement, there should be a public sector-specific paragraph to avoid this consequence. The Board asked staff to draft a relevant paragraph in case it is needed.

The Board also noted that similar issues around the interaction of the likely contract boundary and onerous contract requirements may arise for health insurers because of the Australian regulatory regime of 'community rating'.

Medical defence organisations

The Board decided AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* should be superseded (along with AASB 4 *Insurance Contracts*, AASB 1023 and AASB 1038) by the forthcoming new AASB insurance standard. Until that new standard is applied, AASB Interpretation 1047 remains applicable.

Tier 2 disclosure regime

The Board decided:

- (a) there may be insurers (such as captive insurers) that do not have public accountability and are not reporting entities, and their reporting obligations should be addressed in the context of the Australian Financial Reporting Framework project, particularly the research topic 'Information on entities within a group'; and



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- (b) staff should analyse the characteristics of insurers that would help identify those which are not reporting entities.

AASB Agenda Consultation 2017-2019

The Board considered the feedback received from its Agenda Consultation project and staff recommendations. The Board requested staff to develop project plans on a number of projects and undertake further targeted outreach for some other topics. The Board noted that staff will bring the first tranche of topics back to the Board for consideration at the December 2016 meeting.

Research Updates

The Board noted recent Research Centre activities including:

- (a) staff presentations at the 2016 Accounting & Finance Association of Australia and New Zealand Conference and the Accounting Standards Special Interest Group in July 2016;
- (b) the July 2016 Academic Advisory Panel meeting;
- (c) a comment letter in response to the Australian Research Council's consultation paper *Engagement and Impact Assessment Consultation Paper*;
- (d) publication of AASB Research Report No. 2 [KASB Research Report No. 39] *Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia* in July 2016; and
- (e) proposed changes to the AASB research work program to reflect the recent completion of projects and the IASB's changed work program priorities and format.

International Consultation Documents

The Board decided, given current project priorities, not to make submissions on:

- (a) IASB ED/2016/1 *Definition of a Business and Accounting for Previously Held Interests* (Proposed Amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*); and
- (b) IPSASB Consultation Paper *Public Sector Specific Financial Instruments*.

Review of IFRS Adoption

Staff outlined a summary of stakeholders' views gathered from outreach activities under the Review of IFRS Adoption project. The Board noted that a report will be published by the AASB in Q4 2016.

Research on Corporate Reporting Thresholds

Sue Wright and Karen Handley from Macquarie University presented to the Board their research paper *Determining Threshold Factors for SME Reporting in Australia* (co-authored with Elaine Evans and Christoph Meier, also from Macquarie University).

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)
27 June 2016	AASB 2016-4 <i>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i>	1 January 2017
21 July 2016	AASB 2016-5 <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018



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Next Meeting

In light of the Board's decision to focus resources on the Income of NFP Entities project, the Board agreed to cancel its October meeting. The Board will meet by videoconference in November.

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
IASB	<i>Definition of a Business and Accounting for Previously Held Interests</i>	ED 275	23 September 2016	31 October 2016
IPSASB	<i>Public Sector Specific Financial Instruments</i>	–	–	31 December 2016

Upcoming meetings and events

26 September 2016	World Standard Setters (WSS)
28 September 2016	International Forum of Accounting Standard Setters (IFASS)
29 September 2016	Accounting Standards Advisory Forum (ASAF)
24 November 2016	Research Forum
25 November 2016	Investor Forum

AASB 2016 Scheduled Board Meeting Dates

13-14 December 2016 AASB meeting

At the next Board meeting it is expected the Board will deal with the following items:

13-14 December 2016	<ul style="list-style-type: none"> Agenda consultation project plans Service concession arrangements Service performance reporting Reduced Disclosure Requirements
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