



Subject: Minutes of the 171st meeting of the AASB
Venue: The Portside Centre, Level 5, Symantec House, 207 Kent Street, Sydney NSW
Time(s): Day 1 – Thursday, 13 June 2019, 1.30 pm – 5.00 pm
Day 2 – Friday, 14 June 2019, 8.45 am – 4.45 pm

The day 1 agenda was discussed in private. Day 2 agenda items were discussed in public, except for items 1(a), 1(b), 9, 10 and 11 (Review).

Attendance

Members	Kris Peach (Chair) Mike Blake (Deputy Chair) Kimberley Crook Peter Gibson James Grant (day 2) Ken Liow Carmen Ridley Paul Rogers Taryn Rulton Stephen Taylor Alison White
Apologies	James Grant (day 1)
<i>In attendance</i>	
Staff	Clark Anstis Patricia Au James Barden Aanchal Bhandari (via teleconference) Shachini Dassanayake (via teleconference) Kala Kandiah Hayley Keagan Tom Liassis Peter Loukas Meina Rose Helena Simkova
Other	Wayne Byres (APRA) – agenda item 5 Jim Paul – agenda item 6 Robert Sharma (APRA) – agenda item 5



DAY 1

Joint Meeting with the Auditing and Assurance Standards Board

Agenda Item 1

The Board met with the Auditing and Assurance Standards Board (AUASB) to discuss major projects on their respective work plans and to identify opportunities for collaboration on major projects. The Boards agreed to work collaboratively when appropriate and identified some relevant projects.

Action:

Staff

DAY 2

Agenda and Chair's Report

Agenda Item 1

The Chair noted the significant items on the agenda and provided the Board with an update on recent and future activities.

Apologies, Declarations of Interest, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

James Grant's apology for day 1 was noted.

Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board.

There were no specific declarations for this meeting.

Minutes

The Board approved the minutes of the one hundred and seventieth meeting, held on 30 April 2019.

Approvals Out of Session

The Board noted the out-of-session approval of the following consultation documents and pronouncements since the previous meeting:

- Exposure Draft ED 288 *Interest Rate Benchmark Reform* (May 2019);



- Exposure Draft ED 289 *Annual Improvements to Australian Accounting Standards 2018–2020* (May 2019);
- Exposure Draft ED 290 *Reference to the Conceptual Framework* (June 2019);
- *Conceptual Framework for Financial Reporting* (May 2019); and
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* (May 2019).

New Tier 2 Standard based on *IFRS for SMEs* Disclosures – Exposure Draft

Agenda Item 3

The Board confirmed its proposals for both for-profit and not-for profit Tier 2 entities, including:

- (a) a new Tier 2 framework titled *Australian Accounting Standards – Simplified Disclosures*, proposed to replace the current Reduced Disclosure Requirements (RDR) framework in AASB 1053 *Application of Tiers of Australian Accounting Standards*;
- (b) a new set of principles and methodology to be used in determining Tier 2 disclosures necessary for user needs, based on the disclosures in *IFRS for SMEs*; and
- (c) Tier 2 disclosures located in a separate disclosure Standard, without requiring shading in each Standard.

The ED would not change which entities are permitted to apply Tier 2 reporting requirements and would retain the same recognition and measurement requirements as for Tier 1 entities. The proposals in the ED will address feedback received on Invitation to Comment ITC 39 *Consultation Paper – Applying the IASB’s Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems* and would help reduce compliance costs for entities that are expected to be affected by the AASB’s proposal to remove the ability of certain for-profit private sector entities to prepare special purpose financial statements (SPFS).

As the proposals would reduce the disclosures in comparison with the current RDR, although there may be future changes to the NFP reporting framework as a result of ongoing AASB consultations with other NFP regulators, the proposals would provide some immediate relief for not-for-profit entities that are currently reporting under RDR.

The *IFRS for SMEs* disclosures have been adapted for differences in recognition and measurement requirements between AAS and *IFRS for SMEs*, and to accommodate specific not-for-profit circumstances. The ED is expected to be issued in July with a comment period closing mid-November 2019. The ED will be finalised via a sub-committee of Board members.

Action:

Staff

Member Sub-committee



Removal of Special Purpose Financial Statements for Certain For-Profit Entities – Phase 2 Exposure Draft

Agenda Item 4

The Board decided to propose that the *Conceptual Framework for Financial Reporting* (May 2019) and the removal of the ability of for-profit private sector entities to prepare SPFS would apply to:

- (a) for profit-private sector entities that are required by legislation to comply with either Australian Accounting Standards (AAS) or 'accounting standards';
- (b) other for-profit private sector entities that are required only by their constituting document or another document to comply with AAS, provided that the relevant document was created or amended on or after 1 July 2020; and
- (c) other for-profit entities (including for-profit public sector entities) that elect to prepare general purpose financial statements and apply the Conceptual Framework and the consequential amendments to Standards.

The Board decided to provide an exemption in general for for-profit private sector entities such as trusts, partnerships, joint arrangements and self-managed superannuation funds that have constituting documents or documents such as lending agreements that require compliance with AAS or accounting standards in specifying financial reporting requirements because:

- (a) their financial statements are prepared for specific users (eg a trustee), and those users have the ability to command whatever information they require from the entity;
- (b) the financial statements are not lodged on the public record;
- (c) it may be costly for entities to change their constituting document or other document where general purpose financial statements (GPFS) are not sought by the financial statement users; and
- (d) it is not clear what reporting framework is intended when such documents refer merely to 'accounting standards'.

However, the Board decided to propose that the exemption would not apply to such entities if their documents requiring compliance with AAS were created or amended on or after 1 July 2020, as the financial reporting requirements could either avoid referring to compliance with AAS or be amended at that time to cease referring to compliance with AAS.

The proposed transitional relief for entities transitioning from SPFS to GPFS-Tier 2 that are not fully applying the relevant recognition and measurement requirements of AAS or the requirements for consolidated financial statements in AASB 10 *Consolidated Financial Statements* (if relevant) include:

- (a) amending AASB 1053 to clarify that such an entity should be able to apply either:
 - (i) all relevant requirements of AASB 1 *First-time Adoption of Australian Accounting Standards*;or



- (ii) Tier 2 reporting requirements directly, using the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (b) amending AASB 1 to require specified comparative information rather than fully restating comparatives, such as:
 - (i) presenting two statements of financial position in accordance with AAS, at the beginning and the end of the first AAS (Tier 2) reporting period, as well as disclosing the statement of financial position in the most recent SPFS; and
 - (ii) presenting two statements of profit or loss and other comprehensive income – for the first AAS (Tier 2) reporting period in accordance with AAS, and for the most recent SPFS period as presented in the SPFS; and
 - (iii) a description of the main adjustments in transitioning from SPFS to GPFS-Tier 2.

The ED is expected to be issued in August with a comment period closing mid-November 2019. The ED will be finalised via a sub-committee of Board members.

Action: Staff
Member Sub-committee

External Presentation from Wayne Byres, Chair of APRA

Agenda Item 5

The Chairman of the Australian Prudential Regulation Authority (APRA), Wayne Byres, and Robert Sharma, Head of Accounting Services, discussed with the Board the objectives and work of APRA and the financial reporting framework project of the Board.

Fair Value Measurement for Public Sector Entities

Agenda Item 6

In relation to its working draft of an Exposure Draft proposing modification and guidance to AASB 13 *Fair Value Measurement* for application by not-for-profit public sector entities, the Board tentatively decided to include the following proposals and explanations:

- (a) an illustrative example demonstrating that the current replacement cost of the assets composing a facility (eg a road and land under the road, whether reported jointly or separately) includes all necessary costs intrinsically linked to acquiring those assets at the measurement date, because a market participant buyer of the entity's facility would need to incur those costs when it acquires the facility, whether the market participant buyer acquires the facility from the entity or constructs the facility itself. Each asset's current replacement cost is calculated on the assumption that the asset:
 - (i) does not presently exist; and



- (ii) requires replacing in the asset's current environment, taking into account any make-good costs that must be incurred for surrounding facilities disturbed when the asset is replaced (eg drainage works disturbed when replacing a road). However, this assumption does not preclude reconfiguring an asset to a more optimal configuration upon replacement.

Consequently, the current replacement cost of an asset (whether reported as part of a facility or as a separate asset from the facility – for example, land under roads) would not exclude costs for land or permanent works because the asset is not expected to be replaced. Current replacement cost assumes hypothetical replacement of the asset being measured, and is not limited to costs of replacements actually expected to be incurred in the future;

- (b) an illustrative example demonstrating that the current replacement cost of land forming part of a facility held for its service capacity and not primarily for its ability to generate net cash inflows (such as a public hospital or public school) would typically be measured by assuming it is replaced in its present location. However, in the following rare instances, the land's current replacement cost would be measured assuming its replacement in a cheaper alternative location, consistent with a facility's current replacement cost being measured using the optimal configuration of all resources composing that facility:

- (i) management is aware and considering whether a facility's service potential can be replaced in a cheaper alternative location for its land component;
- (ii) replacing the facility in that cheaper alternative location is feasible, ie both legally permissible and compatible with the entity's operational requirements for that facility (eg relocation could only be assumed if the facility would provide the necessary accessibility of services to beneficiaries);
- (iii) the entity can identify the land's feasible alternative location within a reasonable range of estimates (ie there must not exist a number of feasible alternative locations with significantly different market buying prices of the land); and
- (iv) the current replacement cost of the facility determined on the basis of that alternative location is not exceeded by the price a market participant buyer of the facility would be prepared to pay to remove the buildings and other improvements from the existing facility's site and then sell the property as a vacant site for an alternative use (if such a course of action is legally permissible).

The Board decided that the illustrative example should also demonstrate that, where land is a component of a facility, it is essential to use consistent assumptions about the highest and best use of each asset comprising that facility; and

- (c) an explanation, in the Basis for Conclusions, that an entity's decision regarding whether to include borrowing costs in the current replacement cost of a self-constructed asset:



- (i) does not depend on the accounting policy choice made by the entity (under paragraph Aus8.1 of AASB 123 *Borrowing Costs*) regarding whether to capitalise borrowing costs into the asset's cost on initial recognition; and
- (ii) should consider whether a market participant buyer of the asset would include borrowing costs in its pricing decisions about the asset.

The Basis for Conclusions will also note the International Valuation Standards Committee's support for including borrowing costs in the fair value of property, plant and equipment.

The Board also redeliberated its tentative decision in April 2019 to propose that, for assets held for their service capacity and not primarily for their ability to generate net cash inflows, their fair value should be determined using the cost approach (ie at current replacement cost). These redeliberations took into account correspondence received from constituents on the Board's tentative decision. The Board did not make any decisions on this issue.

The Board will consider a revised draft Exposure Draft at its September 2019 meeting.

Action: Staff

International Consultation Documents

Agenda Item 7

The Board approved a submission to the IASB in response to its Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform*. The ED proposes amendments to AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement* to provide relief from specific hedge accounting requirements that could result in the discontinuation of hedge accounting due solely to the uncertainty arising from interest rate benchmark reform. Board members overall supported the proposals, but encouraged the IASB to proceed without delay to consider financial reporting issues that might arise once the existing interest rate benchmark is replaced with an alternative interest rate.

The Board decided not to comment on the following:

- (a) Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*, which proposes amendments to the Handbook to ensure it is up to date and reflects the best practice;
- (b) Exposure Draft *Annual Improvements to IFRS Standards 2018–2020*, which proposes minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IAS 41 *Agriculture*.

The Board will decide at the next meeting whether to comment on the IASB Exposure Draft *Reference to the Conceptual Framework* based on feedback from stakeholders.

Action: Staff



Other Business – Public

Agenda Item 8

The Board discussed a number of issues arising from IASB Updates and noted correspondence that would need to be considered at a future meeting. No decisions were made.

Other Business – Private

Agenda Item 9

No materials were provided to the Board under this agenda item.

Work Program and Priorities

Agenda Item 10

The Board noted the work program and communications report and discussed project priorities.

AASB 1054 – Disclosure in SPFS of Compliance with R&M – Exposure Draft

Agenda Item 12

The Board confirmed its proposals to require for-profit entities lodging special purpose financial statements (SPFS) with ASIC and not-for-profit (NFP) entities lodging SPFS with the ACNC to disclose information about their compliance with the recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS).

The Board decided to propose that such entities should disclose:

- (a) the basis for the decision to prepare SPFS;
- (b) whether the entity has investments in subsidiaries, associates or joint ventures and whether they have been consolidated or equity accounted as appropriate in accordance with AAS, and an explanation if not complied with. If the entity is a NFP entity, and hasn't undertaken this assessment, it would instead disclose this fact; and
- (c) an explicit statement that the accounting policies applied in the financial statements do or do not comply with all the R&M requirements in AAS, and if not, an indication of where they do not comply.

The Exposure Draft will also include implementation guidance and illustrative examples to help preparers understand the nature of the information proposed to be disclosed. The proposed disclosures are not expected to be onerous – the extent of any non-compliance would not need to be quantified.

The proposed amendments are expected to apply to annual periods ending on or after 30 June 2020. Earlier voluntary disclosure is encouraged.

The Exposure Draft is expected to be issued in July with a comment period of 45 days. The ED will be finalised via a sub-committee of Board members.



Action:

Staff

Member Sub-committee

Implementation of AASB 1059

Agenda Item 13

The Board confirmed its proposals to amend AASB 1059 *Service Concession Arrangements: Grantors* and AASB 16 *Leases* to:

- (a) change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset;
- (b) modify AASB 16 to provide a practical expedient for grantors of service concession arrangements so that they would not need to apply AASB 16 to assets previously recognised under AASB 117 that would be classified as service concession assets in accordance with AASB 1059; and
- (c) include editorial amendments to paragraphs IG10 and IG13 in the implementation guidance.

The Fatal-Flaw Review Draft version of the amending Standard will be open for comment until 17 July 2019 and is expected to be finalised in August 2019.

Action:

Staff

Close of Meeting

The Chair closed the meeting at 4:45 pm on Friday, 14 June 2019.

Approval

Signed by the Chair as a correct record,
this 17th day of September 2019