



AASB Action Alert

From the Australian Accounting Standards Board

Issue No. 162

13 December 2013

Welcome to the AASB Action Alert

The AASB Board met in public on 11-12 December 2013. At this meeting the AASB made key decisions in relation to:

- **Superannuation Entities** – cleared remaining issues to enable voting to approve a ballot draft Standard to be posted on the website before the end of December for a 60-day comment period;
- **Conceptual Framework** – finalised key issues to raise in its submission to the IASB;
- **Financial Instruments** – tentatively decided to issue amendments to AASB 9 and consequential amendments to other Standards to be mandatorily effective for annual periods beginning on or after 1 January 2017, with early application permitted;
- **IASB Disclosure Initiative** – decided to write to the IASB expressing concern regarding the IASB's decision that it is not necessary to clarify the requirements in IAS 1 *Presentation of Financial Statements* relating to disclosures about going concern uncertainties; and
- **Withdrawal of AASB 1031 Materiality** – finalised decisions about how to withdraw AASB 1031 *Materiality*.

The Board also discussed the following topics:

- **Leases**
- **Revenue from Contracts with Customers**
- **IPSASB – First-time Adoption of Accrual Basis IPSASs**
- **Equity Method in Separate Financial Statements**
- **IFRS Interpretations Committee Update**
- **International meetings**
- **Board Membership Changes**

Contact us: The Australian Accounting Standards Board, Level 7, 600 Bourke Street, Melbourne, VIC, 3000
Phone (03) 9617 7600 Fax (03) 9617 7608 Email standard@aasb.gov.au Website www.aasb.gov.au

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Superannuation Entities

The Board considered issues that emerged from the out-of-session review by members of a pre-ballot draft Standard on superannuation entities and decided to:

- (a) retain the requirement to account for intangible assets (whether or not acquired in a business combination) at fair value through profit or loss, consistent with the measurement basis required for most other assets; and
- (b) amend the definition of 'vested benefits' to clarify that it includes the value attributable to all the relevant options available to members, such as lump sum withdrawal and entitlements to pensions.

The Board noted that it plans to approve a ballot draft Standard on superannuation entities for publication on the AASB website for a 60-day fatal flaw review by the end of December. The final Standard will replace AAS 25 *Financial Reporting by Superannuation Plans* and is expected to apply to annual reporting periods beginning on or after 1 July 2016.

Conceptual Framework

The Board considered the key issues to raise in its submission on IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (July 2013), which was incorporated in AASB Invitation to Comment ITC 29. In making decisions on those key issues, the Board considered the submissions received on ITC 29 and staff notes on three AASB Forums held on ITC 29 in October 2013, noting their usefulness in helping the Board determine its views. The Board also noted an oral report on AASB staff's participation in the IASB's Roundtable on DP/2013/1 held in Tokyo in November 2013.

The Board strongly supports the IASB's work in issuing the DP and giving a high priority to the review of its Conceptual Framework. However, the Board has significant concerns with a number of the preliminary views in the IASB DP, including those relating to:

- (a) measurement – the Board disagrees with the preliminary view that a single measurement basis (or model) for all assets and liabilities may not provide the most relevant information for users of financial statements and that a mixed measurement model should therefore be presumed in concept. Rather, the IASB Conceptual Framework should identify an ideal concept of wealth and an ideal concept of changes in wealth from non-owner sources



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- (economic income), to underpin the selection of a conceptually ideal measurement model and assist with conceptually identifying the total amount of economic income for a period;
- (b) presentation and disclosure – the Board considers the preliminary views on presentation and disclosure seem incomplete and unlikely to aid decisions on how to streamline excessive disclosures and make information more relevant;
 - (c) profit or loss and other comprehensive income (OCI), including recycling of OCI items – the Board considers that the DP has not made an adequate conceptual case for splitting an entity's comprehensive income for a period into profit or loss and OCI or for recycling, and notes that the DP does not establish a coherent principle for classifying items of comprehensive income as components of profit or loss or as items of OCI; and
 - (d) the range of issues that are the domain of a Conceptual Framework – the Board disagrees with the range of pervasive issues that the preliminary views indicate should be addressed only at a standards level, and is concerned about the range of exceptions to the preliminary views on conceptual issues.

Comments on IASB DP/2013/1 are due to the IASB by 14 January 2014.

Financial Instruments

The Board received an update on the IASB's project to progressively replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* relating to classification and measurement, impairment and hedge accounting.

Hedge Accounting

The IASB issued IFRS 9 *Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39* on 19 November 2013. The revised IFRS includes amendments to:

- (a) IFRS 9 in respect of general hedge accounting (including consequential amendments to other standards);
- (b) permit application of the 'own credit requirements' of IFRS 9 in isolation; and
- (c) remove the effective date of IFRS 9.

At its November 2013 meeting the IASB decided not to specify an application date but stated that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017.



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The Board tentatively decided to issue amendments to AASB 9 and consequential amendments to other Australian Accounting Standards, to be mandatorily effective for annual periods beginning on or after 1 January 2017 with early application permitted. The inclusion of a mandatory effective date for the amendments is considered necessary for legislative reasons in Australia. That date may need to be revised if the IASB subsequently requires a later date.

Board members will vote on the amendments by the end of December.

The Board also noted that the most recent IASB work plan identifies that the IASB is targeting issuance of its Discussion Paper on Macro Hedge Accounting in Q1 of 2014.

Tier 2 Disclosure Requirements for Hedge Accounting

The Board considered the submissions on Tier 2 Supplement to ED 208 *Hedge Accounting* and a comparison of the disclosures in ED 208 with the final disclosures issued by the IASB.

The Board noted the usefulness of the submissions in helping its deliberations and tentatively decided on the disclosure relief to be provided in the Tier 2 requirements. Those requirements will be issued concurrently with the amendments to AASB 9 and the consequential amendments to other Standards.

Classification and Measurement, and Impairment

The Board received an update on the IASB and FASB October and November 2013 meetings in relation to the amendments proposed in IASB ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* and FASB Proposed Accounting Standards Update *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The Board also received an update on IASB redeliberations on the dual-measurement impairment model proposed in IASB ED/2013/3 *Financial Instruments: Expected Credit Losses*.

Whilst it remains concerned about some aspects of the IASB's proposals in ED/2012/4 and ED/2013/3 and the tentative decisions made subsequently, the Board decided not to write again to the IASB at this stage. The Board will continue to monitor the project. The most recent IASB work plan identifies that it is targeting issuance of a complete IFRS 9, including amendments on classification and measurement and impairment, in the first half of 2014.

IASB Disclosure Initiative

The Board received an update on the recent tentative decisions made by the IASB in its Disclosure Initiative project, including the tentative decisions made by the IASB at its October and

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November 2013 meetings regarding the following proposed amendments to IAS 1 *Presentation of Financial Statements*:

- (a) proposed narrow-scope amendments to IAS 1;
- (b) clarifying the requirements in IAS 1 concerning the current/non-current classification of liabilities; and
- (c) disclosure requirements about an assessment of going concern.

The Board decided to write to the IASB expressing concern regarding the IASB's decision that it is not necessary to clarify the requirements in IAS 1 relating to disclosures about going concern uncertainties. In its letter to the IASB, the Board decided to provide the IASB with examples of disclosures made by entities in Australia in relation to significant uncertainty about going concern and to comment on observed diversity in approach between countries.

Withdrawal of AASB 1031 *Materiality*

The Board considered practical approaches to effect its October 2013 decision to proceed with the withdrawal of AASB 1031 *Materiality*. As an interim measure to achieve withdrawal of the contents of AASB 1031, the Board decided to reissue AASB 1031 so that it serves only as a referencing Standard. References to AASB 1031 in other Standards and Interpretations will be removed as and when those Standards and Interpretations are amended for other reasons. Once all references to AASB 1031 have been removed, AASB 1031 will be completely withdrawn.

Leases

The Board received an update on recent tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on leases. The Board did not consider that there were any further issues to be raised with the IASB regarding those tentative decisions at this stage.

The Board also considered submissions received on Tier 2 Supplement to ED 242 *Leases* with a view to tentatively finalising Tier 2 reduced disclosure requirements, subject to any substantive changes made by the IASB to the disclosure requirements in IASB ED/2013/6 *Leases*. The Board noted the usefulness of the submissions in helping its deliberations.

Revenue from Contracts with Customers

The Board received an update on the progress made by the IASB and the FASB on their joint Revenue from Contracts with Customers project. In particular, the Board noted that at their joint

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October 2013 meeting, the IASB and the FASB completed their redeliberations of the revenue project. Further, the Board noted that a ballot draft of the Standard is underway and the most recent IASB work plan identifies that the IASB is targeting completion of the Standard in Q1 of 2014.

In addition, the Board noted project plans for the AASB's projects that relate to the IASB and the FASB's joint revenue project, that is, the Income from Transactions of Not-for-Profit Entities and Service Concession Arrangements (Grantors) projects.

IPSASB – First-time Adoption of Accrual Basis IPSASs

The Board considered issues in respect of IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* and decided to make a submission that includes the following points:

- (a) whether a three-year transition period provides sufficient time for a first-time adopter to transition fully to accrual basis IPSASs;
- (b) clarification should be provided as to the assertion a first-time adopter is able to make in its financial statements if that entity fails to transition fully to IPSASs within the transition period; and
- (c) it is not clear how an entity would consolidate a Government Business Enterprise that does not prepare financial statements that comply with IPSASs.

Equity Method in Separate Financial Statements

The Board considered preliminary staff views on IASB ED/2013/10 *Equity Method in Separate Financial Statements* (open for comment until 3 February 2014) and decided it would provide a submission to the IASB on the proposals.

Subject to any additional issues identified in submissions received by the Board in response to AASB ED 246 (which incorporates IASB ED/2013/10 and is open for comment until 24 January 2014), the Board intends expressing concerns to the IASB that the proposals could result in the IASB inappropriately setting a precedent of amending IFRSs to address specific local legislative requirements. The Board also noted that the issue of equity accounting is the subject of an IASB research project and recommended that any amendments to the application of the equity method be considered as part of that project.



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IFRS Interpretations Committee Update

The Board received an update on the 12-13 November 2013 IFRS Interpretations Committee meeting. The Board noted the Committee's tentative agenda decision in relation to the issue that the Board raised with the Committee regarding IFRIC 21 *Levies* as to how "the activity that triggers the payment of the levy" should be interpreted in paragraph 8 of IFRIC 21 in assessing when a liability should be recognised. The Board decided not to raise any issues with the Committee at this stage.

Narrow- Scope Amendments

The Board noted the IASB's recent tentative decisions:

- (a) to finalise the proposed narrow-scope amendments in relation to IASB Exposure Drafts ED/2012/6 *Sale or Contribution of Assets between an Investor and Associates or Joint Ventures* and ED/2012/7 *Acquisition of an Interest in a Joint Operation* and provide further clarification to the proposals. The most recent IASB work plan indicates that the IASB is targeting issuance of the amendments in Q1 of 2014; and
- (b) not to proceed with its proposals in ED/2012/3 *Equity Method: Share of Other Net Asset Changes* and that IASB staff have been directed to conduct more analysis on the issue of how an investor should recognise its investee's 'other net asset changes'.

The Board decided there were no further issues that need to be raised with the IASB at this stage.

International Meetings

Asian-Oceanian Standard-Setters Group (AOSSG)

The Board received a verbal report on the Annual AOSSG Meeting held on 27-28 November 2013 in Sri Lanka at which the AASB was represented. The Board noted:

- (a) the meeting was attended by 17 member standard-setters, 4 IASB members (including the Chairman), IASB staff, and IFRS Foundation staff;
- (b) the meeting discussed key matters arising from the IASB Conceptual Framework, Insurance Contracts , Financial Instruments (Australia led the discussion), Rate-regulated Activities, Revenue from Contracts with Customers, Leases, Agriculture: Bearer Plants, IFRS 3 *Business Combinations* Post-implementation Review and IFRS for SMEs projects; and
- (c) the meeting noted the AOSSG survey findings on the application of IFRS in the Middle East and North Africa entities.

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IASB Accounting Standards Advisory Forum (ASAF)

The Board received a verbal report on the ASAF Meeting that was held on 5-6 December in London at which the AASB was represented. The Board noted:

- (a) the meeting was attended by ASAF members, 8 IASB members (including the Chairman) as well as a number of IASB staff;
- (b) the author of the AASB Research Centre's [Occasional Paper No. 1 Liabilities – the neglected element](#) Warren McGregor led the ASAF discussion of the Paper. ASAF members also presented on Stewardship and Reliability (EFRAG and European Standard Setters) and profit and loss measurement and OCI (Accounting Standards Board of Japan);
- (c) other topics, presented by IASB staff for discussion and input from ASAF members included: IFRS 3 *Business Combinations* – Post-implementation review; Rate regulation, and Leases..

Board Membership Changes

The Board farewelled retiring members of the AASB Board: Mr. Victor Clarke, Professor Jayne Godfrey, Ms. Liane Paelias, Dr. Roger Sexton, and Mr. Robert Williams. The Board thanked them for their valuable contributions. The names of the five new Board Members will be announced in due course.



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Upcoming meetings and events

28 January 2014	Comments due to AASB on <u>ED 246 Equity Method in Separate Financial Statements</u>
13 February	AASB meeting
3-4 March	Accounting Standards Advisory Forum (ASAF)
7 March	Interim AOSSG meeting
8-9 March	Regional Policy Forum
8-9 April	AASB meeting

AASB 2014 Scheduled Board Meeting Dates

February 2014 AASB meeting

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

13 February	<ul style="list-style-type: none">• Service Concession Arrangements• IASB Disclosure Initiative Project• Leases – Project update• Financial Instruments – Project update• IPSASB – consider recently issued EDs• Annual Improvements• IFRS Interpretations Committee
8-9 April	
28-29 May	
16-17 July	
3-4 September	
22-23 October	
3-4 December	