



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 165
30 May 2014

Welcome to the AASB Action Alert

The AASB met in public on 28-29 May 2014. At this meeting the AASB made key decisions in relation to:

- **Reporting Entity Concept (amending the application focus of Standards)** – After considering an issues paper, the Board tentatively decided that the application paragraphs of Standards that currently apply to corporate non-reporting entities should be amended to apply to reporting entities/GPFSs only. The Board noted that considerable consultation with stakeholders should be undertaken before commencing a formal due process of proposing the amendment. The Board will also undertake steps to help ensure that the reporting entity concept is as clear as possible.
- **AASB 14 Regulatory Deferral Accounts (ballot draft)** – After considering sweep issues arising from the ballot draft, the Board decided to vote on issuing AASB 14 (incorporating IFRS 14 of the same name, without substantive amendments) shortly after the meeting.
- **Post-Implementation Review of IFRS 3 Business Combinations** – After considering input from constituents, the Board identified the key issues it will raise in its submission on the IASB's Request for Information regarding the post-implementation review of IFRS 3.
- **Related Party Disclosures** – The Board considered, and broadly reconfirmed, its previous tentative decisions in respect of extending the scope of AASB 124 *Related Party Disclosures* to not-for-profit public sector entities.
- **ED 248 Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements** – After considering the submissions received on ED 248, the Board decided to proceed with the proposals without any substantive amendments.

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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, 2014.



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The Board also considered the following topics:

- [Income from Transactions of NFP Entities](#)
- [Narrow Scope Amendments](#)
- [Insurance](#)
- [Financial Instruments](#)
- [Accounting for Dynamic Risk Management](#)
- [Leases](#)
- [Research Update](#)
- [IPSASB Strategy Consultation](#)
- [IFRS Interpretations Committee](#)
- [Levies](#)
- [Emerging Issues](#)

The Board also acknowledged [Board Membership Changes](#). Following the Board meeting, members met with a [delegation from the Government Accounting Standards Committee of Indonesia](#).

[Reporting Entity Concept \(amending the application focus of Standards\)](#)

The Board considered relevant information and arguments set out in an issues paper and tentatively decided that the application paragraphs of Standards that currently apply to corporate non-reporting entities should be amended to apply to reporting entities/GPFSs only. The Board noted that considerable consultation with stakeholders should be undertaken before commencing a formal due process of proposing the amendment. The consultation will include liaison with other regulators to inform them of the Board's tentative decision and coordination in regard to possible implications of implementing the change. The Board will also undertake steps to help ensure that the reporting entity concept is as clear as possible.

The Board also noted that its tentative decision is not conditional on, and is independent of, progressing the other remaining proposals in ED 192 *Revised Differential Reporting Framework* (February 2010) regarding the clarification of GPFSs in an Australian context, including the enhancement of other regulators' roles in identifying reporting entities in respective jurisdictions.



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The Board noted the Standards that would be affected by its tentative decision are:

- AASB 101 *Presentation of Financial Statements*;
- AASB 107 *Statement of Cash Flows*;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- AASB 1031 *Materiality*;
- AASB 1048 *Interpretation of Standards*;
- AASB 1053 *Application of Tiers of Australian Accounting Standards*; and
- AASB 1054 *Australian Additional Disclosures*.

AASB 14 *Regulatory Deferral Accounts* (ballot draft)

The Board addressed a number of sweep issues on AASB 14 *Regulatory Deferral Accounts* (ballot draft), including giving further consideration to the likely impact of that Standard if it were to be adopted in Australia. The Board noted that the Standard might have an impact on a newly listed entity from a foreign jurisdiction and a foreign entity that ‘back door’ lists in Australia.

Overall, based on the expectation that the practical impact would be minimal, the Board decided not to make any amendments to the ballot draft as a consequence of the sweep issues raised. However, the Board decided to include an AASB Basis for Conclusions that captures the Board’s deliberations of the sweep issues to accompany AASB 14.

The ballot draft, with the accompanying AASB Basis for Conclusions, will be voted on by AASB members shortly.

Post-Implementation Review of IFRS 3

The Board decided to make a submission to the IASB in response to the IASB’s Request for Information regarding the post-implementation review of IFRS 3 *Business Combinations*. The Board decided that the principal comments to be made in the submission should include the following:

- (a) although various improvements could be made, major revisions to IFRS 3 are not required and thus a major revision project is not warranted. For example, the Board supports the recognition of impairment of goodwill rather than amortisation, and the present approach to step acquisitions. The Board noted that the main issues in practice relate to the application of other IFRSs to acquired intangible assets and goodwill, such as the impairment requirements under IAS 36 *Impairment of Assets*;



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- (b) the application guidance regarding the definition of a business should be addressed in order to reduce uncertainty in distinguishing business combinations and asset acquisitions;
- (c) fair value is an appropriate measurement basis for business combinations, even though there can be difficulties in applying that basis to particular assets and liabilities;
- (d) the disclosure requirements are generally supported, however, concern should be noted in respect of the proforma revenue and profit or loss disclosures determined as if all business combinations during the period had occurred at the start of the period; and
- (e) application guidance regarding determining whether arrangements for contingent payments to employees or selling shareholders are contingent consideration or separate remuneration transactions should be improved, given previous consideration by the IFRS Interpretations Committee.

In reaching its views, the Board considered the submissions received from constituents on Invitation to Comment ITC 30 *Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations* (February 2014) and the significant matters raised by constituents at the Board's Discussion Forum on the topic, which was held in April.

Related Party Disclosures

The Board considered, and broadly reconfirmed, its previous tentative decisions in respect of extending the scope of AASB 124 *Related Party Disclosures* to not-for-profit public sector entities, including that guidance to clarify how the proposals apply to not-for-profit public sector entities should be developed.

The Board noted that the forthcoming 'management entity' amendments to AASB 124 may have relevance when considering the disclosure of the compensation of Ministers who have been identified as key management personnel of a not-for-profit public sector entity, and that:

- (a) no additional not-for-profit public sector specific disclosures are necessary where an entity applies the 'management entity' amendments noted above; and
- (b) forthcoming AASB 124 paragraph 18A should be retained in Tier 2 disclosure requirements applicable to not-for-profit public sector entities.

The Board agreed that the requirements, when finalised, should apply to annual reporting periods beginning on or after 1 July 2016.

The Board agreed that it is satisfied sufficient due process has been undertaken with respect to the proposals.



ED 248 Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements

After considering the submissions received on ED 248 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*, the AASB decided to proceed with the proposals without any substantive amendments. In doing so, the Board also decided to include as an Appendix to the Standard a table of common transition examples to help those applying the Standard better understand the implications of the amendments.

The Board decided to retain the proposed effective date of 1 July 2014, and requested staff to prepare a ballot draft for voting by Board members as soon as practicable.

Income from Transactions of NFP Entities

The Board received a staff presentation on AASB tentative decisions to date in developing an Exposure Draft (ED) on Income from Transactions of Not-For-Profit Entities (NFPs), and a draft project plan.

The ED will be based on IFRS 15 *Revenue from Contracts with Customers*, modified where necessary to address NFP-specific issues, including accounting for income from transactions of NFPs arising from non-customer sources (e.g. taxes). It will include a proposed replacement of the income recognition requirements in AASB 1004 *Contributions*.

No decisions on the draft ED were made by the Board at this meeting. The ED is targeted for issue during the second half of 2014.

Narrow Scope Amendments

The Board received an update on the following IASB narrow scope projects:

- (a) Fair Value Measurement: Unit of Account;
- (b) Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2); and
- (c) Investment Entities: Applying the Consolidation Exemption (Proposed amendments to IFRS 10 and IAS 28).

The Board noted the IASB's tentative decisions to date on the respective projects and, while expressing concern in relation to some of the proposed amendments, decided not to raise any issues with the IASB on these projects prior to the AASB drafting its submissions on the forthcoming Exposure Drafts.



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Insurance

The Board received an update on recent tentative decisions made by the IASB on its Insurance Contracts project.

The Board had written to the IASB in late April expressing concern about the IASB's tentative decision to require, for all portfolios of insurance contracts, disclosure of the difference between the present value of changes in expected cash flows that adjust the contractual service margin (CSM) in a reporting period:

- (a) when measured using discount rates that applied on initial recognition of insurance contracts; and
- (b) when measured at current rates.

The Board noted the response from the IASB Chairman indicated that the IASB intends to reconsider the use of discount rates that applied on initial recognition of insurance contracts, which may lead to a change in the disclosure requirements. The Board will continue to monitor the IASB deliberations on this issue.

The Board decided to raise concerns with the IASB in relation to three tentative decisions made at the IASB's April and May 2014 meetings regarding non-participating contracts. Those tentative decisions are:

- (a) not to re-consider disclosures in future meetings;
- (b) not to consider the unbundling-lapse together 'rule' in future meetings; and
- (c) to clarify that the service represented by the CSM is insurance coverage that is provided on the basis of the passage of time and reflects the number of contracts in force.

In relation to the third concern above, the Board expressed the view that the IASB's decision to use coverage period for allocating CSM (for non-participating businesses) has three flaws or weaknesses:

- (a) the allocation would not reflect a pattern of meeting a stand-ready obligation (for example, for Lenders Mortgage Insurance where the service is typically non-linear);
- (b) the allocation would be inconsistent with the outcome under the simplified premium allocation approach; and
- (c) insurers do not currently perform this calculation.

The Board considered that using value of expected claims would address all of the above flaws or weaknesses and this approach should be raised with the IASB.



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The Board also noted that accounting for participating contracts is on the IASB agenda for the June 2014 Accounting Standards Advisory Forum (ASAF) meeting.

Financial Instruments

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* in relation to amendments proposed in IASB ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* and IASB ED/2013/3 *Financial Instruments: Expected Credit Losses* (incorporated in AASB ED 230 and ED 237 respectively).

At its February 2014 meeting the IASB concluded that it had completed its due process and requested its staff to prepare a ballot draft. Issuance of a complete IFRS 9, including amendments on classification and measurement and impairment, is now expected to be around June/July 2014. Subject to Board approval, it is anticipated that the amendments to IFRS 9 will be incorporated into AASB 9 in the batch of Standards expected to be issued by the Board in Q4 2014.

The Board decided there were no further issues to raise with the IASB at this stage.

Accounting for Dynamic Risk Management

The Board noted the issuance of AASB Invitation to Comment ITC 31 *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* (which incorporates the IASB Discussion Paper of the same name). Comments are due to the AASB by 19 September 2014 and to the IASB by 17 October 2014. The Board intends conducting targeted outreach, including roundtables, during the comment period – details will be provided on the AASB website in due course.

The Board briefly discussed ITC 31 and indicated broad support for the IASB considering the issues it raises, including the operational issues for banks in applying the existing hedge accounting requirements, and researching whether the portfolio revaluation approach might be usefully applied in a broader sense.

No technical decisions were made.

Leases

The Board noted the April 2014 tentative decisions the IASB and the FASB made in relation to their Leases project and did not consider there were any issues arising out of those decisions to be raised with the IASB at this stage. The Board will consider the May 2014 IASB/FASB tentative decisions at its next meeting.



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Research Update

The Board noted progress on research projects and related matters since the Board's April 2014 meeting, including the following:

- (a) the contractors and staff are in the process of finalising the AASB Research Report *Application of the Reporting Entity Concept and Special Purpose Financial Statements* – expected to be published on the AASB website in June 2014;
- (b) the publication on the AASB website of AASB Essay 2014-1 *The Critical Role of the Reporting Entity Concept in Australian Financial Reporting*;
- (c) development of a plan for progressing the Service Performance Reporting project on the basis of the Board's April meeting decisions, in preparation for transferring the project to standard-setting staff;
- (d) finalisation of the ballot draft AASB 105X *Superannuation Entities* and accompanying Regulation Impact Statement, which has been sent to AASB members for voting;
- (e) near finalisation of a supplementary paper to the AASB's February 2014 submission on the IASB's Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*;
- (f) an outline of the Disclosure Initiative research project that has been commenced by the IASB; and
- (g) the post-implementation review of IFRS 3 *Business Combinations* (see also [item on page 3 above](#)).

IPSASB Strategy Consultation

The Board considered the key issues to raise in its submission on the *IPSASB Strategy Consultation*, addressing the IPSASB's strategy for 2015 forward and its 2015-2019 work program. The Board decided its submission should encourage the IPSASB to first articulate its ideal strategic objective (i.e. without regard to resource constraints, for example, 'acceptance of IPSASs') as a context for identifying, within resource constraints, the desired outcomes that inform the identification of tactics. In addition, the AASB submission will encourage the IPSASB to:

- (a) identify 'improved public financial management' as a desired outcome rather than a primary objective;



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- (b) identify the development of a public sector conceptual framework as an objective, and convergence with IFRSs as a key tactic for achieving its objectives;
- (c) consider using technology creatively as a feedback mechanism, as a way of dealing with IPSAS interpretation and other implementation issues in a resource-efficient way;
- (d) articulate the manner in which the factors to be considered in setting the IPSASB's work program should be balanced, given there may be circumstances where one factor conflicts with another (e.g. IFRS convergence vs alignment with GFS); and
- (e) consider initiating a project addressing 'disclosure overload' and prioritise its project on improving IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, but not underestimate the potential magnitude of the three current major projects on leases, revenue and insurance.

IFRS Interpretations Committee

The Board received an update on the 13-14 May 2014 IFRS Interpretations Committee meeting, and focused on a number of issues arising out of that meeting, including:

- (a) the Committee's final agenda decision relating to IFRS 3 *Business Combinations* – identification of the acquirer in accordance with IFRS 3 and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement. The Board will consider the implications of the scope of that agenda decision at a future meeting;
- (b) the Committee's final agenda decision relating to IAS 32 *Financial Instruments: Presentation* – accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor. Rather than write to the Committee specifically on this issue, the Board decided to write to make a more general point about the importance of agenda decisions being consistent when relating to the same Standard (such as IAS 32); and
- (c) the Committee's recommendation to the IASB relating to an Annual Improvement for IAS 34 *Interim Financial Reporting* – disclosure of information 'elsewhere in the interim financial report'. The Board noted that the Committee's suggested rewording of the proposed paragraph 16A of IAS 34 may have unintended consequences in an Australian reporting context. AASB staff will discuss the issue with the IASB staff.

Levies

The Board reviewed the IFRS Interpretations Committee's final agenda decision in relation to IFRIC 21 *Levies* and the identification of a present obligation to pay a levy that is subject to a pro rata activity



threshold as well as an annual activity threshold. The Board decided not to take any further action in relation to this issue at this stage.

Emerging Issues

Commencement Provision in AASB Standards

The Board decided to include in future Standards made by the Board under its Corporations Act powers a paragraph stating that the Standard commences on the day that it is made by the Board. This is a commencement provision for legal purposes. It would not alter the mandatory application date specified in a Standard.

The Corporations Act states that an Accounting Standard applies to periods ending after the commencement of the Standard or to periods ending or starting on or after a later date specified in the Standard.

Equity Method: Share of Other Net Asset Changes

The Board received an update on developments in the IASB's project on Equity Method: Share of Other Net Asset Changes. In particular, the Board noted that, at the IASB's May 2014 meeting, the IASB decided not to proceed with the proposed amendments and to address the issue of how an investor should recognise its share of other net asset changes as part of its research project on Equity Method of Accounting.

Board Membership Changes

The Board farewelled retiring members of the Board: the Chairman, Mr. Kevin Stevenson and Ms Michele Embling (current Chair of NZASB).

Ms Kimberley Crook (future Chair of NZASB) has been appointed as a Board Member from 1 July 2014. The new AASB Chairman has yet to be appointed.

Indonesian Delegation

Following the Board meeting, members met with a delegation from the Government Accounting Standards Committee of Indonesia and discussed issues of mutual interest, including the frameworks for setting accounting standards in Indonesia, Australia and New Zealand, involvement with the IPSASB and the IASB, and the operations of the Asian-Oceanian Standard-Setters Group.

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Recently Approved Documents

Since last reported (10 April 2014), the Board has approved:

Date Approved	Document	Due Date for Submissions (EDs/ITCs)
2 May 2014	Invitation to Comment ITC 31 <i>Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging</i>	19 September 2014 (AASB) 17 October 2014 (IASB)

Documents Open for Comment

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

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	<i>IASB Request for Information on Post-implementation Review: IFRS 3 Business Combinations</i>	ITC 30	closed	30 May 2014
IPSASB	<i>ED 54 Reporting Service Performance Information</i>			31 May 2014
IASB	<i>ED/2014/1 Disclosure Initiative (Proposed amendments to IAS 1)</i>	ED 249	30 June 2014	23 July 2014
IPSASB	<i>IPSASB Strategy Consultation</i>			31 July 2014
IASB	Invitation to Comment ITC 31 <i>Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging</i>	ITC 31	19 September 2014	17 October 2014



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Upcoming meetings and events

2-3 June 2014	Accounting Standards Advisory Forum (ASAF)
16-17 July 2014	AASB meeting

AASB 2014 Scheduled Board Meeting Dates	16-17 July 2014 AASB meeting
	At the next Board meeting it is expected the Board will deal with the following items:
16-17 July	<ul style="list-style-type: none">• Service Concession Arrangements
3-4 September	<ul style="list-style-type: none">• Revenue
22-23 October	<ul style="list-style-type: none">• Stapled Entities
17-18 December	<ul style="list-style-type: none">• Insurance• Leases• Research Update• International Meetings Update• IPSASB Update