



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 166

18 July 2014

Welcome to the AASB Action Alert

The AASB Board met in public on 16-17 July 2014. At this meeting the Board made key decisions in relation to:

- **Revenue – Tier 2** – decided to amend a number of the Tier 2 disclosure requirements previously tentatively agreed by the Board and decided to issue an ‘adverse comment’ ED with a comment period of approximately 40 days.
- **Stapling Arrangements** – reviewed the IFRS Interpretations Committee’s final agenda decision and decided not to take any further action in relation to this issue at this stage.
- **Disclosure Initiative** – considered the key issues to include in its submission to the IASB on its Exposure Draft ED/2014/1 *Disclosure Initiative*.

The Board also discussed the following topics:

- **Service Concession Arrangements**
- **Revenue**
- **Leases**
- **IFRS Quality Control**
- **IFRS Interpretations Committee**
- **Insurance Contracts**
- **Research Centre Update**
- **International Meeting Update**
- **Emerging Issues**

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Revenue – Tier 2

The Board considered the changes in disclosure requirements in the final Standard IFRS 15 *Revenue from Contracts with Customers* from the IASB Exposure Draft ED/2011/6 (of the same title).

On considering the disclosure requirements of IFRS 15, the Board decided to amend a number of the Tier 2 disclosure requirements previously proposed by the Board. In light of these amendments, and the number of changes in disclosure requirements between ED/2011/6 and IFRS 15, the Board decided that re-exposure of the proposed disclosure requirements is warranted prior to incorporating the Tier 2 reduced disclosure requirements in the forthcoming Standard AASB 15 *Revenue from Contracts with Customers*. The Board decided to issue an ‘adverse comment’ ED with a comment period of approximately 40 days. The Board also requested staff to undertake further targeted outreach in relation to the revised proposals.

Stapling Arrangements – Review of IFRS Interpretation Committee Agenda Decision

The Board reviewed the IFRS Interpretations Committee’s final agenda decision in relation to identification of the acquirer in accordance with IFRS 3 *Business Combinations* and the parent in accordance with IFRS 10 *Consolidated Financial Statements* in a stapling arrangement. The Board decided not to take any further action in relation to this issue at this stage.

Disclosure Initiative

The Board considered the key issues to include in its submission to the IASB on its Exposure Draft ED/2014/1 *Disclosure Initiative* (incorporated in ED 249), after considering submissions received from constituents. The ED proposes amendments to IAS 1 *Presentation of Financial Statements*, particularly to clarify the application of materiality and some presentation and disclosure requirements currently in IAS 1. In addition, the ED includes a further proposal that has arisen from a submission to the IFRS Interpretations Committee concerning the presentation of items of other comprehensive income arising from equity-accounted investments.

The Board expressed broad agreement with the ED’s proposals. However, the Board decided to encourage the IASB to facilitate entities being able to ‘tell the story’, and reduce the complexity and amount of disclosure of information in financial statements, by:

- (a) being less prescriptive about where relevant information is shown in a set of financial statements;
- and

- (b) focusing on disclosure of information specific to an entity's circumstances and the assumptions and choices made in applying IFRSs.

In addition, the Board noted that some of the ED's proposals lack clarity (e.g. in relation to what constitutes non-IFRS information and the manner in which information can be disaggregated).

Service Concession Arrangements

The Board considered a staff issues paper that outlines the implications and suitability of applying, by analogy, the licence application guidance in IFRS 15 to service concession arrangements that involve a grantor providing a licence to charge users to an operator in exchange for a service concession asset and related future services.

The Board did not make any decisions at this meeting on the suitability of applying IFRS 15's licence guidance to service concession arrangements. Instead, the Board directed staff to undertake further analysis, in particular, to consider:

- (a) whether a service concession arrangement from the grantor's perspective could be within the scope of IFRS 15; and
- (b) the implications of applying the requirements in IFRS 15, either directly or by analogy, to service concession arrangements, including considering whether the asset promised to the operator should be accounted for as a licence or as some other form of good or service.

Revenue

Education Session

The Board received an education session on the requirements of IFRS 15, which is anticipated to be made as AASB 15 in Q4 2014.

Subscriber Acquisition Costs

The Board discussed whether the requirements of AASB Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry* are within the scope of the contract costs requirements in IFRS 15. The Board decided that the requirements of Interpretation 1042 ought to be superseded by AASB 15.

The Board decided to issue an 'adverse comment' ED with a 30-day comment period proposing that Interpretation 1042 be superseded.



AASB Action Alert

Issue No: 166
18 July 2014

Not-for-profit and GAAP/GFS Issues

The Board tentatively decided the requirements should not give rise to GAAP/GFS harmonisation issues. The Board noted that not-for-profit revenue requirements will be addressed in its separate project on Income from Transactions of NFP Entities.

Leases

The Board received an update on recent tentative decisions made by the IASB and the FASB on their Leases project and did not consider there were any issues arising out of those decisions that need to be raised with the IASB at this stage.

IFRS Quality Control

The Board noted the European Financial Reporting Advisory Group's (EFRAG's) draft letter and invitation to comment on its proposal for enhancements to IFRS development processes. The Board decided not to comment on the EFRAG draft letter at this stage but to monitor the activities of IASB transition groups.

IFRS Interpretations Committee

The Board received an update on the recent AASB staff responses to IFRS Interpretations Committee staff outreach requests and the preliminary outcomes of the 15-16 July 2014 Interpretations Committee meeting.

Insurance Contracts

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

The Board noted its July 2014 letter on IASB tentative decisions about allocating the contractual service margin based on the passage of time and the Board's concern about the impact for contracts exposing an insurer to risk on a non-linear basis.

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

Research Centre Update

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

- (a) AASB 1056 *Superannuation Entities* was made by the Board;
- (b) a supplementary paper to the Board's submission on the IASB's Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* was finalised and lodged with the IASB;
- (c) Research Centre staff discussed, in general terms, the IASB's research agenda with IASB staff;
- (d) AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* was finalised and published on the AASB website; and
- (e) the Board made a submission to the IASB on the post-implementation review of IFRS 3 *Business Combinations*.

The Board noted the key findings in AASB Research Report No. 1 and the basis for those findings. The Board also discussed initial thoughts on how the AASB might build on the existing research.

The Board also noted that AASB staff are scheduled to liaise with Australian Securities and Investments Commission staff, Treasury staff and the Chair of the FRC's Financial Reporting Taskforce in August on the Board's tentative decision that the application paragraphs of Standards that apply to corporate non-reporting entities should be amended to apply to reporting entities/general purpose financial statements only.

The Board further noted that the AASB's submission and supplementary paper on the IASB's conceptual framework DP are likely to be valuable resources for use in addressing the forthcoming IASB conceptual framework ED and a variety of other issues that can be related back to the matters of principle raised.

International Meetings Update

ASAF

The Board received a report on the IASB's Accounting Standards Advisory Forum (ASAF) meeting held in June 2014, in which AASB representatives participated.

The Board noted the topics discussed at the meeting included the Conceptual Framework, Insurance Contracts, the Disclosure Initiative, Accounting for Dynamic Risk Management, the Equity Method of Accounting and Business Combinations under Common Control.

AOSSG

The Board noted that a number of AOSSG members met in Tokyo on 5 June in a private meeting with the IASB. At that meeting the main focus of discussion was the post-implementation review of IFRS 3 *Business Combinations*.

IPSASB

The Board received a report on the June 2014 meeting of the IPSASB. The Board particularly noted that the IPSASB:

- (a) is near to finalising its Conceptual Framework, with final approval expected in September 2014;
- (b) discussed constituent comments received to its Exposure Drafts 48-52 on Interests in Other Entities. The IPSASB decided to retain an exemption, for parent entities that are not investment entities, from consolidating their controlled investment entities. The Board noted that this decision is contrary to the requirements of IFRS 10 *Consolidated Financial Statements* and the comments made in the Board's submission to the EDs;
- (c) discussed its project on Social Obligations and proposed a two-step approach be taken. The first step will focus on cash transfers and the second step will focus on other social benefits. It is not proposed that two separate consultation papers be issued but, rather, the debate and conclusions from the first step could inform the debate on the second step; and
- (d) discussed its project on Public Sector Financial Instruments and proposed that the consultation paper address monetary reserve instrument transactions (e.g. gold, IMF instruments and currency on issue), statutory receivables, statutory payables and securitisation.

The IPSASB next meets in September 2014.

Emerging Issues

Clarification of Acceptable Methods of Depreciation and Amortisation

The Board considered the amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* in the IFRS *Clarification of Acceptable Methods of Depreciation and Amortisation* (May 2014).

The Board noted concerns regarding the appropriateness of permitting a revenue-based amortisation method to be applied to some intangible assets (including concerns about adopting different principles for tangible and intangible assets). The Board decided that, in view of the limited circumstances in which a revenue-based amortisation method could be applied, those concerns do not warrant departure from incorporating the amendments in Australian Accounting Standards.

The Board tentatively decided the amendments would not give rise to not-for-profit specific issues or GAAP/GFS harmonisation issues.

AASB Action Alert

Issue No: 166
18 July 2014

Other Emerging Issues

The Board noted the following issues have been raised with the Board in formal submissions:

- (a) a request for additional Australian specific requirements for not-for-profit entities in relation to the definition of the residual value of an asset in AASB 116 *Property, Plant and Equipment*, and
- (b) a request for clarification of the use of the cost approach under AASB 13 *Fair Value Measurement* for not-for-profit entities.

The Board requested staff to prepare an analysis of these issues for consideration at its September 2014 meeting.

The Board also noted a change to the exemption from applying the equity method when AASB 128 *Investments in Associates* was reissued in 2011 as AASB 128 *Investments in Associates and Joint Ventures* in conjunction with the issuance of AASB 10 *Consolidated Financial Statements*. The exemption in the first AASB 128 required the ultimate Australian or any intermediate parent of the entity to produce consolidated financial statements available for public use that complied with IFRSs. The exemption in the revised AASB 128 refers instead to the ultimate or any intermediate parent of the entity.

The Board asked staff to prepare an analysis of this issue for consideration at its September 2014 meeting.

Recently Approved Documents

Since last reported (30 May 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
4 June 2014	AASB 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
4 June 2014	AASB 2014-1 <i>Amendments to Australian Accounting Standards</i>	Various (see Standard for details)
5 June 2014	AASB 1056 <i>Superannuation Entities</i>	1 July 2016
12 June 2014	ED 250 <i>Investment Entities: Applying the Consolidation Exception</i>	15 August 2014
23 June 2014	AASB 2014-2 <i>Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements</i>	1 July 2014



AASB Action Alert

Issue No: 166
18 July 2014

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	ED/2014/1 <i>Disclosure Initiative</i>	ED 249	Closed	23 July 2014
IPSASB	IPSASB Strategy Consultation	-	-	31 July 2014
IASB	ED/2014/2 <i>Investment Entities: Applying the Consolidation Exception</i>	ED 250	15 August 2014	15 September 2014
IASB	DP/2014/1 <i>Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging</i>	ITC 31	19 September 2014	17 October 2014

Upcoming meetings and events

25 July 2014	AOSSG Chair's Advisory Committee (CAC)
3-4 September 2014	AASB Meeting

AASB 2014 Scheduled Board Meeting Dates	3-4 September AASB meeting
3-4 September	<p>At the next Board meeting it is expected the Board will deal with the following items:</p> <ul style="list-style-type: none"> • Service Concession Arrangements – Grantor • Borrowing Costs of NFP public sector entities • Fair Value Measurement – NFP and public sector issues • Revenue – Tier 2 • Leases • Accounting for Dynamic Risk Management • Investment Entities: Applying the Consolidation Exception
22-23 October	
17-18 December	