



# AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 167  
5 September 2014

## Welcome to the AASB Action Alert

The AASB Board met in public on 3-4 September 2014. At this meeting the Board made key decisions in relation to:

- **Borrowing Costs of NFP Public Sector Entities** – decided to retain the option in AASB 123 *Borrowing Costs* for not-for-profit (NFP) public sector entities to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.
- **Fair Value Measurement – Implementation Issues** – decided to undertake a project to review whether the disclosure requirements of AASB 13 *Fair Value Measurement* should be modified for NFP public sector entities, and to issue a due process document to propose clarification of AASB 136 *Impairment of Assets* in relation to depreciated replacement cost as the value in use of an asset.
- **Income from Transactions of NFP Entities** – tentatively reaffirmed various decisions in relation to NFP modifications to IFRS 15 *Revenue from Contracts with Customers*.
- **Service Concession Arrangements** – decided that a service concession arrangement in which the grantor promises to transfer an intangible asset to the operator would not be a contract with a customer within the scope of IFRS 15.

The Board also discussed the following topics:

- **Property, Plant & Equipment – Residual Value**
- **AASB 10 and AASB 128 Scope Exclusions**
- **Revenue**
- **Cross-Referencing in Australian Accounting Standards**

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- **Disclosure Initiative**
- **Investment Entities – Applying the Consolidation Exception**
- **Service Performance Reporting**
- **Leases**
- **IFRS Interpretations Committee**
- **Insurance Contracts**
- **Accounting for Dynamic Risk Management**
- **Financial Instruments**
- **Research Centre Update**

### **Borrowing Costs of NFP Public Sector Entities**

The Board considered, applying its *Process for Modifying IFRSs for PBE/NFP*, the option in AASB 123 *Borrowing Costs* for NFP public sector entities to immediately expense all borrowing costs. On evaluation of the accounting policy, including the costs and benefits of aligning the treatment of borrowing costs of NFP public sector entities with that of private sector entities, the Board decided to retain the current relief in AASB 123 from capitalisation of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. The Board requested that staff prepare an AASB Basis for Conclusions to AASB 123 explaining the Board's reasoning in finalising its view.

### **Fair Value Measurement – Implementation Issues**

#### ***Fair value disclosures for NFP public sector entities***

The Board considered feedback received from local government entities about their concerns in relation to the disclosures specified by AASB 13 *Fair Value Measurement*.

The Board decided that it would undertake a project to assess whether the disclosures specified by AASB 13 should be modified for NFP public sector entities. The Board was conscious of the need for any output on this project to be issued on a timely basis and accordingly, directed staff to perform further targeted outreach and to report back to the Board by early next year.

The Board also discussed the role of materiality in assessing the extent of disclosures required, and noted that this assessment is separate from assessment of the materiality of an asset's fair value.



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### ***Using current replacement cost under AASB 13 and depreciated replacement cost under AASB 136***

The Board discussed the approaches to replacement cost and observed that the role of depreciated replacement cost (DRC) as a measure of value in use by NFP entities of particular assets under AASB 136 *Impairment of Assets* does not preclude for-profit entities from using current replacement cost (CRC) as a measure of fair value under AASB 13.

The Board also discussed the relationship between CRC as a measure of fair value, for any entity, under AASB 13 and DRC as a measure of value in use, for NFP entities, under AASB 136. The Board observed that DRC as used in AASB 136 does not have the same meaning as CRC as used in AASB 13. The Board considered that it might be necessary to add to the Aus paragraphs in AASB 136 to clarify this, and directed staff to draft a due process document reflecting the clarification.

### ***Concerns about potential inconsistencies between AASB 13 and other Standards***

The Board discussed whether obsolescence as used in AASB 13 is substantively the same as depreciation and amortisation in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*. The Board considered that obsolescence has a different meaning from depreciation and amortisation. The Board directed staff to consider the implications of that view for the other issues in the staff paper.

### **Income from Transactions of NFP Entities**

In light of the issuance of IFRS 15 *Revenue from Contracts with Customers*, the Board reviewed the NFP modifications tentatively decided by the Board in relation to the IASB ED preceding that IFRS. Development of the draft AASB ED had paused while the Board awaited the finalisation of IFRS 15. The Board tentatively reaffirmed its decisions to include in the ED:

- (a) guidance that references to 'customer' used in IFRS 15 are to be read by NFP entities as references to another party to the transaction;
- (b) NFP-specific examples of when arrangements would, or would not, create enforceable rights and obligations;
- (c) NFP-specific guidance on essential characteristics of promises to transfer goods or services that are sufficiently specific to qualify as a performance obligation. The Board reaffirmed that these characteristics would be necessary, but might not be sufficient, to meet the principle that a promise is 'sufficiently specific' if the goods or services to be transferred are stipulated in sufficient detail to enable identification of how and when the performance obligation is satisfied; and



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- (d) a NFP-specific modification of IFRS 15 that would not require the transaction price to be allocated only to goods or services that are the subject matter of performance obligations. This is to enable separate recognition of any donation component of a contract, subject to the thinking noted in the paragraph below.

The Board tentatively decided to amend its draft proposal to require any donation component of a contract to be accounted for separately (as income when related inflows of economic benefits occur), regardless of the nature of the evidence for the existence and amount of such a component. The Board tentatively decided to explore an approach under which accounting separately for a donation component of a contract is required if a particular evidence threshold is met (e.g. there are observable inputs for estimating the stand-alone selling prices of all of the promised goods or services in the contract).

The ED is targeted for issue during the fourth quarter of 2014.

### Service Concession Arrangements

The Board considered the implications of applying the main revenue model in IFRS 15, either directly or by analogy, to account for a grantor's rights and obligations in a service concession arrangement.

The Board tentatively decided that, from a grantor's perspective, a service concession arrangement in which the grantor promises to transfer an intangible asset to the operator would not be a contract with a customer within the scope of IFRS 15. The Board considered that the intangible asset that the grantor promises to transfer to the operator in exchange for the operator's services is in the nature of financing the construction of the service concession asset and, as such, would not be an output of the government's ordinary activities.

In light of its tentative conclusion that, from a grantor's perspective, a service concession arrangement would not be a contract with a customer, the Board directed the staff to analyse alternatives other than IFRS 15 for accounting for a grantor's rights and obligations. The Board noted that some aspects of IFRS 15 may not be particularly suitable for application to service concession arrangements, but other aspects could be suitable for application by analogy to a grantor's rights and obligations. In developing other alternatives, the Board directed the staff to consider aspects from other pronouncements, including IPSAS 32 *Service Concession Arrangements: Grantor*.

### Property, Plant & Equipment – Residual Value

The Board discussed a request for additional Australian-specific requirements for NFP entities in relation to determining the residual value of an asset in AASB 116 that is subject to being recycled into a new



asset of the entity. The Board considered the issue detailed in the submission is not limited to the NFP sector and could apply to range of recyclable assets.

The Board directed staff to conduct targeted outreach on the issue, in both the for-profit and NFP sectors, to assess the prevalent accounting treatment for recyclable assets and whether diversity in practice exists.

### **AASB 10 and AASB 128 Scope Exclusions**

The Board considered whether to amend the scope exclusion in AASB 10 *Consolidated Financial Statements* and/or the exemption from applying the equity method in AASB 128 *Investments in Associates and Joint Ventures* for an Australian group that has a foreign parent that prepares consolidated financial statements.

The Board directed staff to undertake further outreach on the AASB 10 scope exclusion to further understand and address concerns raised by constituents in response to staff targeted outreach; in particular concerns relating to whether this is a standard-setting issue or a broader regulatory issue. The Board decided to reinstate the related Australian-specific requirement (previously included in AASB 128 (2007), paragraph 13(c)(iv)) that narrows the exception from applying the equity method of accounting to cases when the ultimate Australian or any intermediate parent of the investor (or venturer) produces consolidated financial statements available for public use that comply with IFRSs. The Board directed staff to prepare an Exposure Draft proposing the amendment.

### **Revenue**

#### ***Tier 2 disclosure requirements and AASB Interpretation 1042***

The Board received an update on the outcomes of the two adverse-comment Exposure Drafts ED 251 *Revenue from Contracts with Customers – Tier 2 Disclosures* and ED 252 *Proposal to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry*. The Board decided, on the basis of receiving no adverse comments on either ED, to proceed to a ballot draft of AASB 15 *Revenue from Contracts with Customers*, incorporating the proposals, for voting out of session.

#### ***Transition Resource Group on Revenue***

The Board received an update on the operation and objectives of the Joint Transition Resource Group (TRG) on revenue, which is a limited-life group established by the IASB and the FASB to guide preparers in the implementation of IFRS 15 and Topic 606 of the FASB's Accounting Standards Codification. The first TRG meeting was held on 18 July 2014 and a second meeting is planned for



31 October 2014. At the next AASB meeting, the Board will be provided with an update on the issues raised with the TRG.

## **Cross-Referencing in Australian Accounting Standards**

The Board discussed the options in IFRS for certain disclosures to be provided by cross-reference to information outside the financial statements, provided certain conditions are met. The Board decided to issue an Exposure Draft to expose the Board's decision to, as a general rule, not explicitly include such options in Australian Accounting Standards. The Exposure Draft would also propose the removal of the explicit relief in AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits* for entities to make specified disclosures by cross-reference to information outside the financial statements.

In addition, the Board discussed the forthcoming IASB Annual Improvement to IAS 34 *Interim Financial Reporting* to clarify the meaning of "elsewhere in the interim financial report". The Board tentatively decided, consistent with its decisions in relation to paragraphs 21B, 35C and B6 of IFRS 7 *Financial Instruments: Disclosures*, not to incorporate the amendments to IAS 34, when made, into AASB 134, to the extent the IASB amendments would mention entities providing the information specified by paragraph 16A of AASB 134 by cross-reference to information outside the interim financial report.

## **Disclosure Initiative**

The Board received an update on the recent tentative decisions made by the IASB in its Disclosure Initiative project.

The Board expressed concern in relation to the IASB's proposals to require reconciliation of liabilities related to financing activities. The Board requested AASB staff to raise its concerns with IASB staff, including:

- (a) the need for a clear articulation of the benefits of the proposed reconciliations;
- (b) the requirement would add complexity to disclosure requirements; and
- (c) whether the IASB plans to remove any other disclosure requirements if introducing the reconciliation.

In addition, the Board expressed concerns regarding the proposed disclosure about restrictions on cash and cash equivalents. The Board considered the first step to this project should be to review the definition of 'cash and cash equivalents' before requiring any further disclosures for cash and cash



equivalents, since the current definition is potentially outdated. The Board requested AASB staff to raise this issue with IASB staff.

Furthermore, the Board expressed concern regarding the IASB's tentative decision to develop guidance on the use of cross-referencing disclosures in the financial statements. The Board considered the role of the IASB does not extend to indicating where disclosures are required or permitted to be located, and that this should be a matter each jurisdiction. The Board requested that the Acting Chair express its concerns to the IASB at the upcoming ASAF meeting.

The Board agreed with the IASB's tentative decision to add a project to its Research Program on Performance Reporting.

### **Investment Entities – Applying the Consolidation Exception**

The Board considered constituents' comments on AASB ED 250 *Investment Entities: Applying the Consolidation Exception* (which incorporates IASB ED/2014/2).

The Board decided its submission to the IASB should express concerns in relation to the proposal to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements in paragraph 4(a) of IFRS 10 continues to be available to an intermediate parent entity that is a subsidiary of an investment entity, even when the investment entity measures its interests in subsidiaries at fair value. The Board was concerned that this could result in the loss of relevant information for users of the financial statements of the intermediate parent entity as no consolidated information would be available higher up in the group.

The Board also decided to express concerns in relation to the proposal to amend IAS 28 to clarify that a non-investment entity venturer in an investment entity joint venture cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries. The Board considered that a non-investment entity investor should apply the equity method using the same approach to the group financial statements of both an investment entity associate and an investment entity joint venture, and that approach should be to retain the fair value measurement of the associate/joint venture's interests in subsidiaries.

### **Service Performance Reporting**

The Board discussed a comparison of Service Performance Reporting projects of the AASB, the New Zealand Accounting Standards Board (NZASB) and the International Public Sector Accounting Standards Board (IPSASB). The Board also discussed the scope of the AASB's project, including the



potential to adopt a 'phased' approach – private sector NFP entities addressed in an initial phase and public sector entities incorporated in a future phase.

The Board directed staff to prepare a paper articulating the objective of service performance reporting, a summary of previous decisions made by the Board and a high-level project plan for a phased approach for the project.

### **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 Interpretations Committee**

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

The Board expressed concern as to the reasons provided by the Committee in relation to the tentative agenda decisions on core inventories and the accounting for the net proceeds from sales and costs of testing an item property, plant or equipment in IAS 16 *Property, Plant and Equipment*. The Board decided to write to the Committee in relation to these issues highlighting the Board's disagreement with the reasons provided by the Committee in reaching its tentative agenda decisions.

### **Insurance Contracts**

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

The Board decided to raise concerns with the IASB at the next ASAF meeting in relation to the tentative decisions made at the IASB's July 2014 meeting regarding use of locked in rates for disclosure and interest rate accretion.

Other than this concern, the Board decided there were no further issues that need to be raised again with the IASB at this stage.

### **Accounting for Dynamic Risk Management**

The Board considered feedback received to date on Invitation to Comment ITC 31 *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*, which incorporates





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IASB Discussion Paper DP/2014/1, including feedback from a roundtable conducted on 19 August 2014. A further roundtable was held on 4 September 2014, subsequent to the Board meeting.

Comments are due to the AASB on ITC 31 by 19 September 2014 and to the IASB by 17 October 2014.

### Financial Instruments

The Board received an overview of the requirements of IFRS 9 *Financial Instruments* issued by the IASB in July 2014, including impairment and revised classification and measurement requirements. AASB 9 *Financial Instruments*, incorporating IFRS 9, is anticipated to be made by the Board in Q4 2014. The Board decided to vote on making AASB 9 with early application provisions equivalent to IFRS 9, including the prohibition on applying earlier versions of AASB 9 for dates of initial application from 1 February 2015.

The Board decided to permit the date of initial application, for the purposes of the transition provisions, to be the beginning of the first reporting period after 24 July 2014 (i.e. the date IFRS 9 was issued). However, the Board also noted that Australian entities planning to early adopt the standard would be required to meet the relevant requirements of the standard at their date of initial application (e.g. for hedge accounting, determining classification of financial instruments based on business model and in making designations for elective accounting treatments, such as the fair value option).

In addition, consistent with its previous decisions in respect of AASB 7 *Financial Instruments: Disclosures* paragraph B6 and the second two sentences of paragraph 21B, the Board decided to delete paragraph 35C from AASB 7 concerning incorporation of information by cross-referencing to disclosures outside the financial statements.

The Board also noted concerns about the clarity of the transition provisions in relation to the date of initial application and decided to raise its concerns with the IASB's Impairment Transition Group (ITG).

### Research Centre Update

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

- (a) liaison with representatives from the Commonwealth Treasury, the ASIC and the FRC on progressing work related to the application of accounting standards to entities required by the *Corporations Act 2001* to lodge financial statements, but which do not regard themselves as reporting entities;
- (b) liaison conducted with constituents on the application of AASB 1056 *Superannuation Entities*; and



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- (c) a response from Research Centre staff to a request for information from IASB staff on the information that is presented in relation to initial public offerings when restructurings involving business combinations under common control take place.

### Recently Approved Documents

Since last reported (18 July 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
25 July 2014	ED 251 <i>Revenue from Contracts with Customers – Tier 2 proposals</i>	CLOSED
25 July 2014	ED 252 <i>Proposal to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry</i>	CLOSED
11 August 2014	AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
11 August 2014	AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
23 August 2014	ED 253 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	20 November 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/2014/2 <i>Investment Entities: Applying the Consolidation Exception</i>	ED 250	CLOSED	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



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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2014/3 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	ED 253	20 November 2014	18 December 2014
IPSASB	ED 55 <i>Improvements to IPSASs 2014</i>	-	-	30 September 2014
IPSASB	Consultation Paper <i>The Applicability of IPSASs to Government Business Enterprises (GBEs) and Other Public Sector Entities</i>	-	-	31 December 2014

### Upcoming meetings and events

15-18 September 2014	International Public Sector Accounting Standards Board (IPSASB)
25-26 September 2014	Accounting Standards Advisory Forum (ASAF)
28 September 2014	Asian-Oceanian Standard-Setters Group (AOSSG) [interim meeting]
29-30 September 2014	World Standard-Setters (WSS)
1 October 2014	International Forum of Accounting Standard Setters (IFASS)
2 October 2014	IASB Research Forum

### AASB 2014/2015 Scheduled Board Meeting Dates

### 22-23 October 2014 AASB meeting

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

22-23 October 2014	<ul style="list-style-type: none"> <li>• IASB Conceptual Framework</li> </ul>
17-18 December 2014	<ul style="list-style-type: none"> <li>• Service Performance Reporting</li> </ul>
11-12 February 2015	<ul style="list-style-type: none"> <li>• Recognition of Deferred Tax Assets for Unrealised Losses</li> </ul>
15-16 April 2015	<ul style="list-style-type: none"> <li>• Disclosure Initiative</li> </ul>
27-28 May 2015	<ul style="list-style-type: none"> <li>• Accounting for Dynamic Risk Management</li> </ul>
8-9 July 2015	<ul style="list-style-type: none"> <li>• Leases</li> </ul>
2-3 September 2015	<ul style="list-style-type: none"> <li>• International Meeting Update</li> </ul>