

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 169
19 December 2014

Welcome to the AASB Action Alert

The AASB Board met in public on 17-18 December 2014. At this meeting the Board made key decisions in relation to:

- **Approval of AASB 9 *Financial Instruments***
- **Service Concession Arrangements**
- **Service Performance Reporting**

The Board also discussed the following topics:

- **Fair Value Measurement – Unit of Account**
- **Fair Value Disclosures for NFP Public Sector Entities**
- **Recognition of Deferred Tax Assets for Unrealised Losses**
- **Financial Reporting Requirements for Australian Groups with a Foreign Parent**
- **Annual Improvements 2012-2014 Cycle**
- **Rate Regulation**
- **Classification and Measurement of Share-based Payment Transactions**
- **IPSASB Consultation Paper – Applicability of IPSASs to Government Business Enterprises (GBEs)**
- **IFRS Interpretations Committee and Revenue Transition Resource Group**
- **Insurance Contracts**

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Approval of AASB 9 *Financial Instruments*

The Board made the following Standards in session:

- (a) AASB 9 *Financial Instruments* (incorporating IFRS 9 of the same name);
- (b) AASB 2014-X *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, incorporating the consequential amendments arising from issuance of AASB 9; and
- (c) AASB 2014-Y *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)*, an amending standard that limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015.

AASB 2014-X and AASB 2014-Y will be issued by the AASB as AASB 2014-7 and AASB 2014-8 respectively.

No sweep issues were identified by the Board.

Service Concession Arrangements

The Board continued discussing service concession arrangements in which the grantor provides an operator a right to charge third parties and the operator constructs and operates a service concession asset. Given the importance of service concession arrangements to governments and the current lack of accounting guidance for such arrangements, the Board decided that service concession arrangements should be treated separately from licences granted by governments. The Board tentatively decided to propose that a grantor should:

- (a) initially recognise an obligation (instead of immediate revenue recognition) when the service concession asset is recognised; and
- (b) subsequently recognise revenue over the life of a service concession arrangement.

The Board emphasised that the Basis for Conclusions would explain that the Board was persuaded by several factors including: the grantor's obligation to step-in to provide the public service if the operator were to fail to perform its obligations under the service concession arrangement; the grantor controls the asset and only provides a right of access to the asset; the grantor would be obliged to undertake various activities in relation to the service concession asset over the term of the arrangement; and that IFRS 15 requires a performance obligation that grants a right of access to be a performance obligation satisfied over time.

The Board also considered other issues that have been raised with staff, relating to the scope of the project, assessing control of the service concession asset, and the measurement of the service concession asset. The Board reconfirmed its previous tentative decisions that:

- (a) *IPSAS 32 Service Concession Arrangements: Grantor* is the foundation for the scope of the standard on grantor accounting in service concession arrangements;
- (b) The control approach in *IPSAS 32* remains appropriate and that additional guidance should clarify whether a grantor controls a service concession asset where a third-party regulator is involved.

Further, the Board agreed that staff should conduct further research on measurement of the service concession asset.

The Board also considered the relationship between service concession arrangements and other licences granted by government, and instructed staff to conduct research on the nature and accounting for various licences. The purpose of this research is to inform the Board as to whether a separate project may be required to consider the accounting for these types of licences.

Service Performance Reporting

The Board discussed how the Service Performance Reporting project should be progressed and decided that the project should move directly to drafting an Exposure Draft (ED). In drafting the ED, the Board tentatively decided that:

- (a) staff should have regard to the *IPSASB* project, but should work closely with New Zealand Accounting Standard Board (NZASB) staff to develop similar proposals;
- (b) the scope of the ED should include public sector and private sector not-for-profit entities (consistent with the proposed scope of the NZASB projects; and
- (c) the ED will be drafted as if it will be a mandatory accounting standard (consistent with the NZASB project), with a question in the ED as to whether this is appropriate.

The Board also had regard to the principles articulated in the *IPSASB* and *NZASB's* SPR projects as well as those proposed in previous AASB research papers. The Board tentatively decided that it is important for the principles for SPR to be expressed in such a way that they result in an entity providing appropriate information about the achievement of its stated objectives (outputs or outcomes). The Board noted for-profit entities considering integrated reporting may find this ED helpful.

The ED is targeted for issue in June 2015.

Fair Value Measurement – Unit of Account

The Board considered the remaining key issues to include in its submission to the IASB on its Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (incorporated into ED 254), after considering feedback received from constituents.

The Board confirmed its previous tentative decisions, including its decision not to support the proposal that the fair value measurement of an entity's quoted investment in a subsidiary, joint venture or associate is the product of the quoted price of the individual instruments held and the quantity of instruments, and decided to:

- (a) disagree with the proposal to amend IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Joint Ventures and Associates* and instead recommend that IFRS 13 *Fair Value Measurement* be amended to reflect the IASB's final conclusions with respect to the fair value measurement of quoted investments in subsidiaries, joint ventures and associates;
- (b) disagree with the proposed transitional provisions to IFRS 10, IAS 27 and IAS 28, and to recommend that the proposed amendments, when finalised, apply prospectively, as the amendments reflect a revision to a valuation technique or its application;
- (c) comment on the ambiguity as to whether the IASB intends its conclusions on fair value measurement for investments within the scope of IFRS 10, IAS 27 and IAS 28 would also apply to fair value measurements within the scope of IFRS 3 *Business Combinations* and other Standards; and
- (d) comment that a cash-generating unit may not correspond to a quoted investment in a subsidiary, joint venture or associate where, for example, debt finance and tax liabilities are excluded from the cash-generating unit and, accordingly, query whether the proposed amendments are intended to also apply to such investments.

A number of Board members indicated that they will consider dissenting from the issue of an Australian Standard incorporating the ED's proposals, if finalised in the manner exposed by the IASB in ED/2014/4.

Fair Value Disclosures for NFP Public Sector Entities

The Board discussed the results of the staff outreach activity and alternatives for progressing the project. The Board noted the prevalence in the not-for-profit (NFP) public sector of property, plant and equipment (PPE), including infrastructure assets, measured at fair value, and considered whether the resulting

quantum of disclosures added to, or detracted from, the relevance of general purpose financial statements to users.

The Board noted that certain disclosures specified by AASB 13 *Fair Value Measurement* may potentially be of less importance to users where the related assets are not held for the purposes of generating future cash inflows. The Board directed staff to conduct further research into whether a case for modification under the *Process for Modifying IFRSs for PBE/NFP* could be made for PPE held for its current service potential rather than to generate future cash inflows. The Board also directed staff to conduct a cost-benefit analysis of the additional specified disclosures for such PPE classified as Level 3 in the fair value hierarchy, including exploring the benefits to users of pursuing a potential exemption from these disclosures.

The Board decided it would be useful for a staff article to be prepared addressing some of the transitional issues for NFP public sector entities identified in the staff outreach. The staff article will also highlight the application of materiality in preparing fair value disclosures.

Recognition of Deferred Tax Assets for Unrealised Losses

The Board considered the remaining key issues to include in its submission to the IASB on its Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* (incorporated into ED 253), after considering feedback received from constituents. The Board decided to disagree with the proposed transitional provisions, and recommend that the IASB require all entities already applying IFRSs to apply the amendments in the same manner.

Financial Reporting Requirements for Australian Groups with a Foreign Parent

The Board considered feedback received in response to ED 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent* and agreed to finalise the amendment to require the ultimate Australian entity to equity account associates or joint ventures in its stand-alone or consolidated financial statements. The Board agreed to clarify the drafting of proposed paragraph Aus17.2 to read as follows (new text underlined, deleted text struck through):

Aus17.2 Notwithstanding paragraphs 17 and Aus17.1, the ultimate Australian ~~parent of the~~ entity with joint control of, or significant influence over, an investee shall apply the equity method in accounting for interests in associates and joint ventures in accordance with this Standard when either the ~~parent~~ entity or the group is a reporting entity or both the ~~parent~~ entity and the group are reporting entities.

Annual Improvements 2012-2014 Cycle

The Board considered feedback received on ED 256 *Removal of Cross-References from Financial Statements to Other Documents* in respect of the Board's proposed policy to not include in Australian Accounting Standards any IFRS text that mentions that an entity could disclose information specified by Accounting Standards by cross-reference from the general purpose financial statements. The Board also considered further whether there is a specific regulatory impediment in Australia to allowing information to be provided by cross-reference from general purpose financial statements and concluded that there was no specific regulatory impediment that would prohibit such cross-referencing of information.

In light of the feedback received, the Board reconsidered its previous tentative decision in relation to the amendments to IAS 34 *Interim Financial Reporting* included in International Financial Reporting Standard *Annual Improvements to IFRSs 2012-2014 Cycle*. The Board decided not to change IAS 34; permitting cross referencing.

The Board is expected to redeliberate ED 256 at its next meeting.

Rate Regulation

The Board discussed the key comments to make in its submission on IASB Discussion Paper DP/2014/2 *Reporting the Financial Effects of Rate Regulation*, which was issued by the AASB as Invitation to Comment ITC 32 (September 2014). The Board considered feedback received from Australian constituents on ITC 32 and staff suggestions.

The Board decided to:

- (a) reiterate its view that regulatory deferral accounts as described in DP/2014/2 do not meet the definitions of assets and liabilities in the *Conceptual Framework*;
- (b) note that some specific disclosures in financial statements regarding rate regulation might be appropriate; and
- (c) emphasise that, should the IASB choose to develop recognition and measurement requirements for rate regulation, the scope of the IFRS should be as narrow as possible, with application by analogy prohibited.

Classification and Measurement of Share-based Payment Transactions

The Board discussed ED 257 *Classification and Measurement of Share-based Payment Transactions* (which incorporates IASB ED/2014/5) and formed tentative views on key comments to make in its

submission to the IASB in relation to measurement, subject to considering feedback received from constituents.

The Board tentatively agreed with proposals in the ED to:

- (a) clarify that accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the approach used for measuring equity-settled share-based payments in paragraphs 19–21A of IFRS 2;
- (b) specify that if the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation, then the transaction should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise be classified as equity-settled if it had not included the net settlement feature; and
- (c) specify that modifications to the terms and conditions of a cash-settled share-based payment transaction that results in a change in its classification from cash-settled to equity-settled should be accounted for in the following manner:
 - (i) the share-based payment transaction is measured by reference to the modification date fair value of the equity instruments granted as a result of the modification;
 - (ii) the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and
 - (iii) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recognised in profit or loss immediately.

The Board also tentatively agreed with the proposed prospective application of the above amendments, and with the proposal to permit an entity to apply the amendments retrospectively if it has the information needed to do so and this information is available without the use of hindsight.

IPSASB Consultation Paper – Applicability of IPSASs to Government Business Enterprises (GBEs)

The Board considered the key issues to raise in a comment letter to the IPSASB in respect of IPSASB Consultation Paper *The Applicability of IPSASs to Government Business Enterprises and Other Public*

Sector Entities. The Board supported the IPSASB's preliminary view (Approach 1) that, rather than defining and excluding GBEs from the scope of IPSASs, the IPSASB would describe the characteristics of public sector entities for which IPSASs are intended. The Board also supported option (a) of Approach 1 that would use IPSAS terminology rather than GFS terminology to describe the characteristics of public sector entities.

IFRS Interpretations Committee and Revenue Transition Resource Group

The Board considered recent developments at the IFRS Interpretations Committee (Committee) and Revenue Transition Resource Group (TRG) including:

- (a) the outcomes of the 11 November 2014 Committee meeting and recent AASB staff responses to Committee staff outreach requests; and
- (b) the IFRS 15 *Revenue from Contracts with Customers* implementation issues that have been discussed by the IASB / FASB TRG at both meetings held in 2014.

Although the Board expressed some concern in relation to some of the decisions made by the Committee, the Board decided not to raise any issues with the Committee or TRG at this stage.

Insurance Contracts

The Board considered recent developments in the IASB's Insurance Contracts project, including the IASB's October and November 2014 Board meetings. The Board decided there were no issues that needed to be raised with the IASB at this stage.

Recently Approved Documents

Since last reported (24 October 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
28 November 2014	ED 257 <i>Classification and Measurement of Share-based Payment Transactions</i>	25 February 2015
12 December 2014	AASB 15 <i>Revenue from Contracts with Customers</i>	1 January 2017
12 December 2014	AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	1 January 2017

AASB Action Alert

Issue No: 169
19 December 2014

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
12 December 2014	AASB 2014-6 <i>Amendments to Australian Accounting Standards – Agriculture: Bearer Plants</i>	1 January 2016
17 December 2014	AASB 9 <i>Financial Instruments</i>	1 January 2018
17 December 2014	AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i>	1 January 2018
17 December 2014	AASB 2014-8 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)</i>	1 January 2015

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
IPSASB	Consultation Paper <i>The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities</i>	-	-	31 December 2014
IASB	DP/2014/2 <i>Reporting the Financial Effects of Rate Regulation</i>	ITC 32	Closed	15 January 2015
IASB	Exposure Draft ED/2014/5 <i>Classification and Measurement of Share-based Payment Transactions</i>	ED 257	25 February 2015	25 March 2015

Upcoming meetings and events

11-12 February 2015	AASB Meeting
10-13 March 2015	International Public Sector Accounting Standards Board (IPSASB)
23-24 March 2015	International Forum of Accounting Standard Setters (IFASS)
26-27 March 2015	Accounting Standards Advisory Forum (ASAF)



AASB Action Alert

Issue No: 169
19 December 2014

AASB 2015 Scheduled Board Meeting Dates	11-12 February 2015 AASB meeting At the next Board meeting it is expected the Board will deal with the following items:
11-12 February 2015	<ul style="list-style-type: none">• Removal of cross-references from financial statements to other documents• Recycling of property, plant and equipment• Financial instruments RDR• Disclosure initiative
15-16 April 2015	
27-28 May 2015	
8-9 July 2015	
2-3 September 2015	
21-22 October 2015	
2-3 December 2015	