



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 170

13 February 2015

Welcome to the AASB Action Alert

The AASB Board met in public on 11 February 2015. At this meeting the Board made key decisions in relation to:

- **Related Party Disclosures for Not-for-Profit Public Sector Entities**
- **Service Concession Arrangements – Grantor Accounting**
- **Removal of Cross-References from Financial Statements to Other Documents**
- **Income from Transactions of Not-for-Profit Entities**

The Board also discussed the following topics:

- **Residual Value of Recyclable Assets**
- **Financial Instruments – Reduced Disclosure Requirements**
- **Meeting with IPSASB Chair**
- **International Projects**

Related Party Disclosures for Not-for-Profit Public Sector Entities

The Board finalised proposals to require not-for-profit public sector entities to provide related party disclosures for annual reporting periods beginning on or after 1 July 2016. The Board tentatively decided, that comparative information would not be required in the first year of application. An amending Standard removing the exemption from AASB 124 *Related Party Disclosures* is expected to be issued by the end of March 2015.

In reviewing the draft Implementation Guidance, the Board decided that additional guidance should be included to reinforce the view that, for non-KMP related party transactions, only those transactions that

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@asb.gov.au **Website** www.aasb.gov.au

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are significant to the reporting entity are required to be disclosed. The Board noted it is expected that individually significant transactions will be a small subset, by number, of total related party transactions. The Board also noted the need for the AASB to hold education sessions, in recognition of the significance of the amendments to not-for-profit public sector entities and having regard to the proposed application date.

Service Concession Arrangements – Grantor Accounting

An Exposure Draft (ED) is targeted for issue by the end of March 2015, with a 120-day comment period. Given the importance of this issue to the public sector the Board will be conducting a number of outreach activities.

Key tentative Board decisions include:

- (a) the Board tentatively reaffirmed its earlier decision to apply the control or regulation approach, rather than a control only approach. The control or regulation approach mirrors AASB Interpretation 12 *Service Concession Arrangements*. In making this decision the Board noted that the proposals in the ED will reinforce the move from recognising assets based on a risk and rewards approach to a control based approach. Accordingly, infrastructure assets subject to public/private arrangements not captured under the proposals (i.e. no price regulation) may still need to be recognised under other Standards addressing control of assets. The Board also noted that AASB 10 *Consolidated Financial Statements* applies to any special purpose vehicles that hold service concession assets;
- (b) if a service concession arrangement involves a right to charge users, the grantor should account for its promise (explicit or implicit) to undertake activities in relation to the service concession asset that will benefit the operator as a contract liability, similarly to a right of access licence under AASB 15 *Revenue from Contracts with Customers*;
- (c) to define 'public service', noting that this may mean that the proposals in the ED have a wider scope than AASB Interpretation 12;
- (d) that any difference between the fair value of the asset and the financial liability on transition is to be included in opening equity, noting that this amount cannot be used to offset any future impairment losses; and
- (e) the ED apply to all grantors (including public sector for-profit entities), but requested staff to undertake further analysis on the scope prior to the issuance of the ED.



Removal of Cross-References from Financial Statements to Other Documents

Based on the feedback from comment letters received on ED 256 *Removal of Cross-References from Financial Statements to Other Documents*, the Board decided that the cross-referencing permitted by the IASB should also be permitted in Australia in the absence of any legislative impediment. The Board noted its intention to contribute to the IASB's Disclosure Initiative – Principles of Disclosure Project in this regard, including encouraging the IASB to consider other implications of providing information by cross-reference from the financial statements. The Board also noted that the ability for entities to provide specified information by cross-reference from the financial statements does not change existing requirements for management and auditors to ensure that the financial statements are presented fairly and that the cross-referenced material is capable of being audited where necessary.

The Board also decided to reinstate the ability to provide specified information by cross-reference in paragraphs 21B, 35C and B6 of IFRS 7 *Financial Instruments: Disclosures* into AASB 7 *Financial Instruments: Disclosures*.

Income from Transactions of Not-for-Profit Entities

Key tentative Board decisions regarding the draft ED on Income from Transactions of Not-for-Profit Entities include:

- (a) the ED should be structured to indicate that separate Standards would be issued in relation to:
 - (i) implementation guidance for not-for-profit entities on contracts with customers (set out as an amendment to AASB 15); and
 - (ii) requirements and implementation guidance for income from taxable events and transactions outside contracts with customers;
- (b) the ED should propose that whenever the cash consideration paid for a non-financial asset by a not-for-profit entity differs from fair value, the asset's 'cost' should be measured at fair value. However, a qualitative assessment would be made of whether such a difference occurred; and
- (c) the Board reaffirmed its earlier tentative decision that a condition that a transfer of assets to a not-for-profit entity relates to a particular time period does not, of itself, meet the 'sufficiently specific' criterion for identifying a performance obligation. For example, absent of any other factors, receipt of funds on 30 June 2015, although specified to be for the period 1 July 2015 to



30 June 2016, would be recognised as income at 30 June 2015. However:

- (i) a performance obligation may arise when such a condition is accompanied by other conditions (such as a condition that particular goods or services are to be provided to the customer); and
- (ii) a transfer of assets to a not-for-profit entity may, depending on the facts and circumstances, give rise to liabilities other than performance obligations (e.g. a refund liability).

The Board tentatively decided that where there is a donation element, this should be accounted for prior to the application of other Standards – accordingly, below-market leases would need to be initially accounted for at fair value. The Board will consider appropriate transitional requirements related to these issues.

The Board will consider further drafts of the ED out of session over the coming weeks. The Board also directed staff to undertake further research and analysis into refund liabilities and the definition of ‘contributions by owners’. The ED is targeted for issue in March 2015.

Residual Value of Recyclable Assets

The Board considered two views identified as a result of outreach in relation to the definition of residual value and the divergent accounting practices resulting from those views. The Board tentatively decided that the recognition of a residual value in AASB 116 *Property, Plant and Equipment* is limited to when an entity expects to receive consideration at the end of the asset’s useful life and that recognition of residual value is not appropriate when existing assets are expected to be recycled into a replacement asset. The Board further noted that componentisation and determining the appropriate useful life in accordance with the requirements of AASB 116 would result in a similar outcome to the alternative approach of assuming a residual value. The Board also considered the level of componentisation is not limited to the circumstances when components are physically distinct. The Board was advised that the componentisation approach is being used by local councils in Tasmania and has resulted in improved asset management.

The Board decided to issue a tentative agenda decision noting the Board’s reasoning for not taking the issue onto its agenda. The Board also directed staff to develop a staff article on the issue.



Financial Instruments – Reduced Disclosure Requirements

The Board decided to postpone the consideration of Reduced Disclosure Requirement (RDR) relief for Tier 2 entities in respect of the disclosure requirements in AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements* that are amended by AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, pending a decision to reassess the Tier 2 Disclosure Principles.

Meeting with IPSASB Chair

Andreas Bergmann (IPSASB Chair) and Paul Sutcliffe (IPSASB Senior Technical Advisor) provided the Board with a report on the IPSASB's work, and attended other Board meeting sessions of particular relevance to the public sector. They provided an overview of:

- (a) the IPSASB's Public Sector Conceptual Framework issued in October 2014; and
- (b) the IPSASB's current and future work program. Current projects include social benefits, public sector combinations, emissions trading schemes and public sector financial instruments. Key future projects the IPSASB has identified include non-exchange expenses, a review of IPSASs on exchange and non-exchange revenues, public sector-specific measurement issues, and heritage and infrastructure assets.

Board members discussed various issues of mutual interest with the IPSASB representatives, including the relationship between IPSAS-compliant financial statements and government finance statistics.

International Projects

The Board received an update on recent international meetings.

Recently Approved Documents

Since last reported (19 December 2014), the Board has approved the following Standards and Exposure Drafts:

Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
23 December 2014	AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	1 January 2016



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Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
23 December 2014	AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016
21 January 2015	AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012 – 2014 Cycle</i>	1 January 2016
28 January 2015	AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	1 January 2016
28 January 2015	AASB 2015-3 <i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>	1 July 2015
30 January 2015	AASB 2015-4 <i>Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent</i>	1 July 2015
30 January 2015	AASB 2015-5 <i>Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
19 December 2014	Exposure Draft ED 258 <i>Disclosure Initiative (Proposed amendments to AASB 107)</i>	20 March 2015
11 February 2015	Exposure Draft ED 259 <i>Classification of Liabilities (Proposed amendments to AASB 101)</i>	9 May 2015

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	Exposure Draft ED/2014/5 <i>Classification and Measurement of Share-based Payment Transactions</i>	ED 257	25 February 2015	25 March 2015
IASB	Exposure Draft ED/2014/6 <i>Disclosure Initiative (Proposed amendments to IAS 7)</i>	ED 258	20 March 2015	17 April 2015



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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Exposure Draft ED/2015/1 <i>Classification of Liabilities</i> (Proposed amendments to IAS 1)	ED 259	9 May 2015	10 June 2015

Upcoming meetings and events

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)
15-16 April 2015	AASB Meeting

AASB 2015 Scheduled Board Meeting Dates	15-16 April 2015 AASB meeting
	At the next Board meeting it is expected the Board will deal with the following items:
15-16 April 2015	<ul style="list-style-type: none">Fair Value DisclosuresService Performance ReportingDisclosure Initiative – Proposed Amendments to AASB 107Classification of Liabilities – Proposed Amendments to AASB 101International Projects
27-28 May 2015	
8-9 July 2015	
2-3 September 2015	
21-22 October 2015	
2-3 December 2015	