

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 173
9 July 2015

Welcome to the AASB Action Alert

The AASB Board met in public on 8 July 2015. At the meeting the Board made key decisions in relation to:

- [Fair Value Disclosures of Not-for-Profit Public Sector Entities](#)
- [Reduced Disclosure Requirements \(Tier 2\) Principles](#)
- [Reporting Service Performance Information](#)

The Board also discussed the following topics:

- [Insurance Contracts](#)
- [Conceptual Framework](#)
- [IPSASB Consultation Process](#)
- [International Projects Update](#)
- [Education Session and Roundtable Debrief](#)
- [Presentation from Australian Auditing & Assurance Standards Board Chair](#)
- [Strategic Plan Update](#)
- [Research Update](#)

Fair Value Disclosures of Not-for-Profit Public Sector Entities

The Board approved AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*, providing relief from certain AASB 13 *Fair Value*

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Measurement disclosures. The Standard will be able to be early adopted for 30 June 2015 reporting periods. The Standard will be published on the AASB website shortly.

After considering the only response to adverse comment Exposure Draft (ED) ED 262 *Fair Value Disclosures of Not-for-Profit Public Sector Entities* the Board confirmed divergence from its transaction neutrality policy was warranted, for not-for-profit (NFP) public sector entities.

The Board reaffirmed that the costs of preparing some of the disclosures specified by AASB 13 were more than transitional in nature, and outweighed the benefits of the disclosures to users. The Board was persuaded by the extent and variety of specialised property, plant and equipment measured on the fair value basis, and questioned the usefulness of the additional information about the fair value measurement of such assets when provided at an aggregated level, given the broad range of assumptions in the typical examples provided. The Basis for Conclusions was amended to better clarify the Board's reasoning.

The Board decided the relief should not be extended to all NFP entities as its decision was based on the prevalence of fair value measurement, and the extent and diversity of assets held by NFP public sector entities.

The Board noted that concerns raised by constituents about the broader application of AASB 13 were beyond the scope of the current project. However, such matters will be considered as part of a future Board project, or as part of a staff article on fair value.

The Board was satisfied that sufficient due process had been performed, and the 12 Board members present voted to make the Amending Standard.

The Board noted it had previously directed staff to prepare a staff article addressing some of the transitional issues for NFP public sector entities, and to highlight the application of materiality in preparing fair value disclosures. The Board directed staff to give consideration to disclosures made in 30 June 2015 NFP public sector entity financial reports in preparing that staff article.

Reduced Disclosure Requirements (Tier 2) Principles

The Board tentatively decided to establish a Reduced Disclosure Requirements (RDR) decision-making framework (RDR Framework) for use in determining the minimum disclosures required of all Tier 2 entities.

The Board tentatively decided the essential features of its RDR Framework are:

- (a) the overarching principles of user needs and cost-benefit;

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- (b) disclosure of financial performance, financial position and cash flows;
- (c) to meet user needs there are two key disclosure areas (KDAs):
 - (i) current liquidity at an entity level and solvency (or funding position if a public sector entity) and associated key risks; and
 - (ii) transactions and other events significant or material to understanding the entity's operations as represented by financial performance, financial position and cash flows including:

CORE DISCLOSURE AREAS

- (a) commitments and contingencies;
- (b) impairment;
- (c) related parties; and
- (d) subsequent events;

SUPPORTING DISCLOSURE AREAS

- (a) nature of transaction or event;
 - (b) accounting policy on when to recognise and how to measure;
 - (c) significant estimates and judgements specific to a transaction or event; and
 - (d) associated key risks specific to a transaction or event; and
- (d) some guidance to be developed to complement the RDR Framework to assist Tier 2 entities in applying the disclosure requirements, including consideration of materiality when determining the transactions and other events to disclose. The Board did not decide the format of the guidance at this meeting (e.g., whether application guidance or part of the Standard).

The Board noted that the RDR Framework would establish a minimum but that just as for Tier 1 entities there may need to be additional disclosures to provide a true and fair view. In addition, Tier 2 disclosures should always be a subset of Tier 1 disclosures. The Board directed staff to apply the RDR decision-making Framework to a number of Standards for discussion at the September Board meeting.

Reporting Service Performance Information

The Board tentatively decided to extend the proposed comment period for the forthcoming service performance reporting ED from four months to six months, with comments due around the end of

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January 2016. As a result of this decision, the Board also tentatively decided that the proposed effective date for the proposals should be deferred by one year to 1 July 2018.

Conceptual Framework

The Board tentatively decided that its response to the IASB Conceptual Framework ED should target key issues for Australian entities, identified as:

- (a) use of profit or loss and other comprehensive income;
- (b) proposed liability definition; and
- (c) measurement.

Other issues would be commented on to a lesser degree in the Board's response.

The Board supported working with the staff of the New Zealand Accounting Standards Board (NZASB) in developing responses to the key issues identified, where possible.

The Board noted that the IASB's Conceptual Framework is targeted towards for-profit entities; accordingly, when the IASB Framework is finalised, NFP specific amendments may be necessary before a revised framework is introduced for Australian NFP entities. However, potential implications for NFP entities will be considered as part of the Board's discussions and outreach on the ED.

Insurance Contracts

The Board noted AASB-NZASB staff papers being presented at the July 2015 ASAF meeting on the pattern of recognition of the contractual service margin (CSM) and the use of historical discount rates in measuring some components of insurance liabilities. These issues were identified in recent outreach as the key concerns of Australian and New Zealand stakeholders.

The Board observed that the CSM, which represents a stand-ready obligation, could have a different value to a policyholder over the life of some contracts and that the pattern of that service should drive CSM recognition in those cases. Recognition based on time alone, although providing consistent accounting requirements for all contracts, would not lead to comparable outcomes if different contracts are different in substance. In particular, the Board noted that in the Framework (and IASB ED/2015/3 *Conceptual Framework for Financial Reporting*) consistency and comparability are not the same and, for information to be comparable, like things must look alike and different things must look different.

In relation to the use of discount rates in measuring the components of insurance liabilities, members expressed support for having a 'purer' current value model for measuring insurance liabilities based on

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current cash flows and current discount rates, consistent with the AASB-NZASB staff paper for the ASAF meeting.

The Board also noted that under the IASB's model, a movement would need to be disclosed of the impact of a difference between the contract inception-date discount rate and the current discount rate, which over a multi-year contract can give rise to disclosures in years when there is no change in the current rate from the beginning and end of the current period. Insurers would also be required to accrete interest on the CSM at the contract inception-date discount rate.

IPSASB Consultation Process

The Board agreed a strategy to engage further with Australian constituents on IPSASB consultation documents, prior to the AASB making its own submission to the IPSASB, including requesting constituent comments on each consultation document.

The Board decided that the AASB can develop further contacts with member and users groups that have a public sector interest. Board members were requested to provide staff with relevant contacts with whom they can engage.

International Projects Update

The Board did not identify any issues to raise with the IASB or IPSASB as a result of their recent meetings.

IPSASB June 2015 meeting report

The Board noted that the IPSASB had finalised a number of documents for consultation that will be issued for comment in Australia, including:

- (a) a Consultation Paper on Recognition and Measurement of Social Benefits; and
- (b) an ED *Applicability of IPSASs* proposing to remove the scope exclusion of Government Business Enterprises and instead provide a description of the type of entity for which IPSASs are developed.

Education Session and Roundtable Debrief

The Board noted that the recent NFP education sessions were well attended and that the feedback received from attendees was very positive. The Board received a briefing of key points raised in the roundtable discussions on ED 260 *Income of Not-for-Profit Entities* and ED 261 *Service Concession*

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Arrangements: Grantor and noted the staff plan to bring back details of all feedback received on the ED's to the next Board meeting.

Presentation from Australian Auditing & Assurance Standards Board Chair

Merran Kelsall, Chair of the Australian Auditing & Assurance Standards Board (AuASB), provided the Board with an overview of the AuASB's activities. The Boards agreed they should work more closely together on key projects such as the Australian reporting framework, service performance reporting and the disclosure initiative.

Strategic Plan Update

The Board noted that a number of key performance indicators for the AASB's strategic directions had been achieved, and the majority of those remaining were on track.

Research Update

The Board noted significant research activities and developments since the June 2015 meeting, including:

- (a) reclassification of, and re-prioritisation of projects within, the IASB's research work program;
- (b) the establishment of an AASB Academic Advisory Panel to facilitate two-way communication between the AASB and academia with a view to being an impetus for more research in areas that will further AASB projects and financial reporting policy;
- (c) the types of empirical work that might be able to be done in conducting the IFRS post-implementation review; and
- (d) the benchmarking that will be done as part of the Australian Financial Reporting Framework project and supported the jurisdictions identified in the staff paper and noted some other jurisdictions for staff to consider including in the exercise.

Recently Approved Documents

Since last reported (29 May 2015), the Board has approved the following Standards and Exposure Drafts:

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Date Approved	Document	Effective Date (Standards) Due Date for Submissions (EDs)
1 June 2015	AASB Exposure Draft ED 264 <i>Conceptual Framework for Financial Reporting</i>	5 October 2015
1 June 2015	AASB Exposure Draft ED 265 <i>Updating References to the Conceptual Framework (Proposed amendments to AASB 2, AASB 3, AASB 4, AASB 6, AASB 101, AASB 108, AASB 134, Interpretation 127 and Interpretation 132)</i>	5 October 2015
22 June 2015	AASB Agenda Decision <i>Definition of Residual Value in Relation to Infrastructure Assets</i>	N/A
23 June 2015	AASB Exposure Draft ED 266 <i>Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan</i>	21 September 2015
8 July 2015	AASB 2015-7 <i>Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities</i>	1 July 2016

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
AASB	Exposure Draft ED 261 <i>Service Concession Arrangements: Grantor</i>	ED 261	27 July 2015	-
AASB	Exposure Draft ED 260 <i>Income of Not-for-Profit Entities</i>	ED 260	14 August 2015	-
IASB	ED/2015/5 <i>Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan</i>	ED 266	21 September 2015	19 October 2015
IASB	ED/2015/3 <i>Conceptual Framework for Financial Reporting</i>	ED 264	5 October 2015	26 October 2015

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2015/4 <i>Updating References to the Conceptual Framework</i> (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32)	ED 265	5 October 2015	26 October 2015

Upcoming meetings and events

16-17 July 2015	Accounting Standards Advisory Forum (ASAF)
2-3 September 2015	AASB Meeting
22-25 September 2015	International Public Sector Accounting Standards Board (IPSASB)
28-29 September 2015	World Standard Setters (WSS)
1-2 October 2015	Accounting Standards Advisory Forum (ASAF)

AASB 2015 Scheduled Board Meeting Dates	2-3 September 2015 AASB meeting At the next Board meeting it is expected the Board will deal with the following items:
2-3 September 2015	<ul style="list-style-type: none"> • Reduced Disclosure Requirements (Tier 2) Principles
21-22 October 2015	<ul style="list-style-type: none"> • Income of Not-for-Profit Entities
2-3 December 2015	<ul style="list-style-type: none"> • Service Concession Arrangements • Conceptual Framework • Financial Reporting Framework: Benchmarking