



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 211
15 November 2021

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 10 – 11 November 2021. At the meeting the Board made key decisions in relation to:

[Income of Not-for-Profit Entities – Narrow-scope Amendments](#)

[Right-of-Use Assets of Not-for-Profit Entities under Concessionary Leases](#)

[First-time Adoption of AASB 1 by a Subsidiary](#)

[Disclosure of Accounting Policies – Amendments to Tier 2 and Other Australian Accounting Standards](#)

[Insurance Activities in the Public Sector](#)

[Not-for-Profit Private Sector Financial Reporting Framework](#)

[Fair Value Measurement for Not-for-Profit Entities](#)

[Disclosure Initiatives](#)

The Board also discussed the following topics

[Deferral of Effective Date of Amendments to AASB 10 and AASB 128](#)

[Presentations to the Board](#)

[Subsidiaries without Public Accountability](#)

[Management Commentary](#)

[Intangibles](#)

[Research Update](#)

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The Board noted that Peter Gibson would retire from the Board at the end of the year and recorded its appreciation of his significant contributions during his nine years of membership.

Income of Not-for-Profit Entities – Narrow-scope Amendments

The Board considered the remaining implementation issues raised by not-for-profit stakeholders to be addressed in the short-term, narrow-scope project on AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. Rather than proposing amendments to the Standards, the Board decided that additional educational material should be developed regarding:

- (a) the 'identified specifications' requirement and revenue recognition in accordance with AASB 1058 in respect of transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity;
- (b) the recognition of assets under contracts in the scope of AASB 1058 when grants are received in arrears;
- (c) assessing enforceability of agreements in the scope of AASB 15, such as legally enforceable agreements; and
- (d) assessing termination for convenience clauses.

The Board plans to issue the Exposure Draft covering its previous decisions regarding illustrative examples with a 45-day comment period in January 2022.

Right-of-Use Assets of Not-for-Profit Entities under Concessionary Leases

The Board considered the accounting policy choice in AASB 16 *Leases* (paragraphs Aus25.1–Aus25.2) for the initial measurement of right-of-use (ROU) assets arising under concessionary leases at cost or fair value. The Board decided:

- (a) for not-for-profit (NFP) private sector lessees – to retain the accounting policy choice as a permanent option; and
- (b) for NFP public sector lessees – to consider whether to reassess the accounting policy choice when the Board decides on any additional guidance for measuring the fair value of ROU assets under concessionary leases. This decision would be made after consideration of the outcomes of the concessionary leases part of the IPSASB's current Leases project and the Board's forthcoming Exposure Draft that will propose modifications to AASB 13 *Fair Value Measurement* for NFP public sector entities.



AASB Action Alert

Issue No: 211
15 November 2021

In relation to (b), the Board noted concerns raised by public sector stakeholders regarding the difficulty of measuring the fair value of historical concessionary leases. However, the Board decided not to make a decision about whether to grandfather existing concessionary leases from a possible future fair value requirement unless it decides to remove the accounting policy choice to initially measure concessionary ROU assets at cost. Any such decision would only be made with the appropriate due process.

First-time Adoption of AASB 1 by a Subsidiary

The Board considered a draft Exposure Draft of amendments that would assist entities with the first-time preparation of general purpose financial statements (GPFS) in some circumstances, including the removal of special purpose financial statements and the reporting entity concept for certain for-profit private sector entities from 1 July 2021. The Exposure Draft will propose amendments to:

- (a) AASB 1 *First-time Adoption of Australian Accounting Standards* – to allow a subsidiary preparing GPFS for the first time to apply the optional exemption in paragraph D16(a) to measure its assets and liabilities at the carrying amounts that would be included in the parent’s consolidated financial statements where the parent has already adopted either Australian Accounting Standards or IFRS Standards; and
- (b) AASB 1053 *Application of Tiers of Australian Accounting Standards* – to allow for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS to apply AASB 1 when preparing consolidated financial statements for the first time.

The Exposure Draft will be issued shortly with a 60-day comment period.

Disclosure of Accounting Policies – Amendments to Tier 2 and Other Australian Accounting Standards

The Board decided to proceed with the proposals in ED 312 *Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards*, with some changes.

In finalising its views, the Board decided:

- (a) not to include the proposed guidance paragraphs 95A–95E in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (corresponding with paragraphs 117A–117E of AASB 101 *Presentation of Financial Statements*). Although the guidance might be helpful to users, the Board noted that AASB 1060 permits entities to refer to AASB 101 (and other Standards) for guidance; and



AASB Action Alert

Issue No: 211
15 November 2021

- (b) to clarify that the accounting policy disclosure requirements in AASB 1060 for specific transactions or balances also apply only where the accounting policy information is material to the financial statements (i.e. the same basis as the general requirement to disclose accounting policy information).

An amending Standard, with an effective date of annual periods beginning on or after 1 January 2023, is expected to be issued in December 2021.

The Board also decided to consider whether a requirement to disclose material accounting policy information should be added to AASB 1039 *Concise Financial Reports*.

Insurance Activities in the Public Sector

The Board considered a draft Exposure Draft that would propose modifications to AASB 17 *Insurance Contracts* for application by public sector entities. With a few clarifications, the draft ED reflects the decisions made at the Board's meetings in April, June and September 2021.

The Board noted that the NZASB will consider the draft ED at its December 2021 meeting. The plan is for both Boards to approve the Exposure Draft at their respective February 2022 meetings. Some stakeholder outreach on the draft ED will be conducted during November and December 2021, with a particular focus on the proposed indicators for identifying arrangements that would be scoped into AASB 17, which may lead to some amendments to the draft ED for the Board to consider in February 2022.

The Board also noted an issue regarding whether confidence levels for risk adjustments in liabilities for remaining coverage and liabilities for incurred claims should be aligned. The Board decided to note the issue in the Basis for Conclusions of the Exposure Draft but not to propose any public sector guidance on the matter.

Not-for-Profit Private Sector Financial Reporting Framework

The Board decided to include the following proposals in the Discussion Paper (DP) on Tier 3 reporting requirements for not-for-profit (NFP) private sector entities.

Primary financial statements

Tier 3 reporting requirements should require an entity to present:

- (a) a statement of financial position;
- (b) a statement of profit or loss and other comprehensive income; and



AASB Action Alert

Issue No: 211
15 November 2021

- (c) a statement of cash flows that:
- (i) covers both cash and cash equivalents;
 - (ii) reports cash flows from operating activities using only the direct method; and
 - (iii) does not require cash flows from investing activities to be presented separately to cash flows from financing activities;

The Board decided to seek stakeholder feedback through the DP as to whether other possible simplifications to the statement of cash flows should be considered, such as whether all cash flows should be presented net of Goods and Services Tax (GST).

The Board decided not to form a view for the DP as to whether a statement of changes in equity should be required as part of Tier 3 reporting requirements. The Board observed that while not requiring a statement of changes in equity may be a proportionate response in recognition of the lower-level differential reporting tier, the statement can be useful to some stakeholders in assessing the integrity of the financial statements. Therefore, the DP will seek views on whether the statement of changes in equity should be required.

Recognising the broad characteristics of the entities in the scope of Tier 3, the Board decided to propose in the DP to replicate the Tier 2 requirements for the information presented on the face of the primary financial statements, supplemented by guidance or education material.

Leases

The Board decided to propose, for the purpose of the DP, that Tier 3 reporting requirements for leases (other than concessionary leases) should require a lessee (lessor) to:

- (a) recognise lease payments as an expense (income), supplemented by disclosure of information about the entity's lease commitments; and
- (b) measure the lease expense (income) on a straight-line basis over the lease term, unless another systemic basis is more representative of the time pattern of the user's benefit.

Fair Value Measurement for Not-for-Profit Entities

Subject to considering further views of the Project Advisory Panel, the Board decided to propose in an Exposure Draft the following modifications to AASB 13 *Fair Value Measurement* for measuring the fair value of non-financial assets of not-for-profit (NFP) public sector entities held primarily for their service capacity (i.e. not held primarily for their ability to generate net cash inflows):



AASB Action Alert

Issue No: 211
15 November 2021

- (a) modifying AASB 13 paragraph 28(c) to propose that a use of such an asset would be financially feasible if it generates a sufficient return that it would be rational for market participants (including NFP public sector entities) to invest in the asset's service capacity – with the meaning of 'sufficient return' to be explained in a NFP public sector entity context;
- (b) regarding 'specialised assets' (which might be defined following further consideration), including implementation guidance on the assumptions to use in measuring the fair value when a market participant is not readily identifiable, and on the circumstances in which the presumption that the current use of such asset is its highest and best use can be rebutted;
- (c) when measuring an asset's fair value under the cost approach:
 - (i) assume the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper site;
 - (ii) assume the asset presently does not exist and all components of the asset need to be replaced. Therefore, all necessary costs intrinsically linked to acquiring or constructing a modern equivalent asset at the measurement date would be included in the asset's current replacement cost;
 - (iii) any 'excess capacity' that is temporary or occurs cyclically should not be identified as economic obsolescence; and
 - (iv) economic obsolescence should not be limited to circumstances in which a formal decision has been made to reduce the asset's physical capacity.

The Board decided not to propose guidance regarding whether to include borrowing costs in measuring the fair value of a self-constructed asset under the cost approach.

The Board decided that no standard-setting actions are required under the *AASB Not-for-Profit Entity Standard-Setting Framework* to address other issues related to the measurement of non-financial assets on which individual members of the Panel had suggested guidance.

The Board also decided to defer consideration of whether to provide additional guidance on how to measure the fair value of right-of-use assets arising under concessionary leases until after considering the outcome of the concessionary leases part of the IPSASB's current Leases project.

The Board plans to consider a draft Exposure Draft at its next meeting.



AASB Action Alert

Issue No: 211
15 November 2021

Disclosure Initiatives

The Board discussed its submission to the IASB ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach* (AASB ED 309). The Board agreed to express its concerns relating to the lack of clarity and specificity of the proposals. The Board decided to recommend the IASB consider using the proposed guidance outlined in the ED as a guide when developing future Standards and when reviewing detailed disclosure requirements (e.g. as part of post-implementation reviews) rather than replacing the current disclosure requirements.

The Board decided to recommend that the IASB undertake further research into future forms of financial reporting (e.g. digital financial reporting and use of machine reading technology to access information in the financial statements) to understand better the potential effects on financial reporting and how disclosure requirements might be expressed.

Deferral of Effective Date of Amendments to AASB 10 and AASB 128

The Board decided to further defer the effective date of amendments made in AASB 2014-10 to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*, to periods beginning on or after 1 January 2025. The Board noted that legal requirements in Australia mean that the amendments cannot be deferred indefinitely (the IASB's approach). The amendments remain in place so that they can be adopted early, consistent with the IASB outcome.

The amending Standard will also include editorial corrections to other Standards and Interpretations.

Presentations to the Board

The Board discussed relevant matters with the following presenters:

- Ann Tarca, IASB member – update of IFRS Foundation activities, including technical projects of the IASB and the IFRS Interpretations Committee and the establishment of the International Sustainability Standards Board
- Nancy Milne and Channa Wijesinghe of the Accounting Professional & Ethical Standards Board – update of APESB activities, including its current strategic plan and technical projects
- Adrian King, KPMG partner – guidance issued by the Task Force on Climate-related Financial Disclosures (TCFD).

The Board also approved the publication of an Invitation to Comment for stakeholder feedback on a draft Position Statement supporting TCFD disclosures by entities seeking to provide relevant disclosures in the short term.



AASB Action Alert

Issue No: 211
15 November 2021

Subsidiaries without Public Accountability

The Board considered the proposals in the IASB ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* (AASB ED 314) and decided to submit a comment letter to IASB. In the submission, the Board will recommend the IASB:

- (a) broaden the scope of the Standard to apply to all entities without public accountability;
- (b) reconsider the evidence supporting the cost versus benefit analysis and accordingly further reduce the proposed disclosure requirements;
- (c) consider including all disclosure requirements, including those related to presentation, and guidance in the Standard; and
- (d) document thoroughly the decision-making process in the Basis for Conclusions, to explain the reasons for adding the required disclosures.

Further targeted outreach will be undertaken on the implications of the IASB's proposals.

Management Commentary

The Board deliberated its response to IASB Exposure Draft ED/2021/6 *Management Commentary* (AASB ED 311). The Board decided that its submission would support the proposals on general requirements and would recommend the IASB to:

- (a) avoid requiring unaudited management commentary that fully or partially complies with the revised Practice Statement to use the terms 'unqualified' or 'qualified' in a statement of compliance; and
- (b) provide a limited exemption for prejudicial disclosure in management commentary.

Concerning proposals about areas of content, the Board expressed the view that the overall approach could be difficult for preparers and auditors to operationalise and for regulators to enforce. In particular, the Board disagreed with the design of the disclosure objectives that would require preparers to consider a headline objective, assessment objectives and specific objectives.

The Board agreed with other proposals about areas of content and decided to recommend the IASB to:

- (a) provide a clear framework that clarifies the relationship between materiality, the six areas of content and key matters;
- (b) improve the readability of the revised Practice Statement, including shortening the length and moving explanatory material and examples to appendices;



AASB Action Alert

Issue No: 211
15 November 2021

- (c) include a paragraph specifically clarifying that areas of content are interrelated and information may meet more than one disclosure objective without being duplicated in several sections of the management commentary;
- (d) replace the term 'key matters' with another term such as 'key commentary matters' to avoid confusion with 'key audit matters';
- (e) develop better disclosure guidance on governance; and
- (f) consider the outcome of the IASB's Third Agenda Consultation and the work of the new International Sustainability Standards Board (ISSB) in further developing the revised Practice Statement.

In relation to the selection and presentation of information, the Board decided to support the proposals and to recommend the IASB to:

- (a) better incorporate the concepts and guidance developed in IFRS Practice Statement 2 *Making Materiality Judgements*;
- (b) incorporate principles and terminology expected to be developed in the ISSB's related Standards and guidance as appropriate;
- (c) provide examples to demonstrate the application of aggregation; and
- (d) clearly state that the examples provided are non-authoritative.

In addition, the Board also decided that its submission should recommend the IASB to consider the ISSB's direction and work plan before deciding the effective date of a revised Practice Statement.

Intangibles

The Board considered an updated draft AASB Staff Paper *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures*. The Board noted the Paper would provide input to the international debate on issues relevant to identifying useful information that could be disclosed in financial statements about unrecognised internally generated intangible assets, at least until a more substantive review of AASB 138/IAS 38 *Intangible Assets* is initiated and undertaken. The Board decided that staff should proceed with the aim of publishing the Paper early in 2022.

Research Update

The Board noted a report of recent Research Centre activities, including:

- (a) the agenda for the 2021 Virtual Research Forum to be held on Monday, 29 November;



AASB Action Alert

Issue No: 211
15 November 2021

- (b) details of the three research teams and projects selected for the 2022 Research Forum; and
- (c) an update on the joint research with the Malaysian Accounting Standards Board on IFRS 16 *Leases* transition requirements and practical expedients, including the findings to date to be presented at the 13th Annual Asian-Oceanian Standard-Setters Group meeting in November.

Recently Approved Documents

Since last reported (13 September 2021), the Board has approved the following Standards, Exposure Drafts or other proposal documents.

Date Approved	Document	Effective Date (Standards/Int'ns) or Due Date for Submissions (EDs)
23 September 2021	ED 314 <i>Subsidiaries without Public Accountability: Disclosures</i>	1 November 2021
7 October 2021	ITC 46 <i>AASB Agenda Consultation 2022–2026</i>	18 February 2022
7 October 2021	ITC 47 <i>Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 Financial Instruments – Classification and Measurement</i>	31 December 2021

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, the IFRS Interpretations Committee, the IFRS Foundation or the IPSASB are published on the AASB website.

Issuer	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2021/6 Revised Practice Statement on Management Commentary	ED 311	closed	23 November 2021
IFRS IC	Tentative Agenda Decision Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)	–	–	25 November 2021
IFRS IC	Tentative Agenda Decision Demand Deposits with Restrictions on Use (IAS 7)	–	–	25 November 2021
IPSASB	Mid-Period Work Program Consultation	–	–	30 November 2021
IASB	Request for Information Post-implementation Review of IFRS 9 Financial Instruments – Classification and Measurement	ITC 47	31 December 2021	28 January 2022



AASB Action Alert

Issue No: 211
15 November 2021

Issuer	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach	ED 309	closed	12 January 2022
IASB	ED/2021/7 Subsidiaries without Public Accountability: Disclosures	ED 314	closed	31 January 2022
AASB	ITC 46 AASB Agenda Consultation 2022–2026	ITC 46	18 February 2022	–

AASB 2022 Scheduled Board Meeting Dates

23-24 February

7 April

18 May

22-23 June

3 August

21-22 September

3 November

14-15 December

February 2022 AASB meeting

At the next Board meeting, it is expected the Board will address the following items:

Classification of Debt with Covenants as Current or Non-current

Fair Value Measurement for Not-for-Profit Entities

First-time Adoption of AASB 1 by a Subsidiary

Insurance Activities in the Public Sector

Not-for-Profit Private Sector Financial Reporting Framework

Supply Chain Financing Disclosures