



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 215

27 June 2022

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 22 – 23 June 2022. At the meeting the Board made key decisions in relation to:

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

[Sustainability Reporting](#)

[IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting*](#)

[Agenda Consultation](#)

[Accounting Policy Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities](#)

The Board also discussed the following topics

[IPSASB Update](#)

[Audit Engagement Disclosures](#)

[Post-Implementation Reviews](#)

[Research Update](#)

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.

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Financial instruments

Tier 3 reporting requirements should specify the financial instruments that would be within its scope, including those that are simpler in nature, and direct an entity to apply AASB 9 *Financial Instruments* for other financial instruments.

For financial instruments within the scope of Tier 3, the requirements should:

- (a) require interest income and expense to be calculated by reference to the contractual interest rate;
- (b) require any initial premium or discount to be amortised over the expected life of the instrument;
- (c) require impairment to be recognised when it is probable that the carrying amount will not be collectible (an 'incurred loss' model);
- (d) apply the fair value definition in AASB 13 *Fair Value Measurement*;
- (e) not permit hedge accounting;
- (f) require derecognition of a financial asset when either the contractual rights to the cash flows from the financial asset expire or are settled or the entity otherwise loses control of the asset; and
- (g) not address exchanges of debt instruments or the modification of the terms of financial liabilities.

The Board decided to seek feedback through the DP to consider the extent of embedded derivatives in arrangements entered into by smaller NFP entities and the need for specific Tier 3 requirements.

Approach to disclosure requirements

Tier 3 disclosure requirements should be developed based on the following principles:

- (a) for transactions with the same or similar recognition and measurement (R&M) requirements to Tier 2 reporting requirements for NFP private sector entities, the disclosure requirements should be based on the corresponding requirements in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*; and
- (b) for transactions with different R&M requirements to Tier 2:
 - (i) adopt appropriate disclosure requirements from other jurisdictions with comparable R&M requirements corresponding to Tier 3 requirements; or
 - (ii) develop specific disclosure requirements in the absence of appropriate international precedents.

The DP will include examples of possible disclosure requirements for some transactions in the scope of the Tier 3 reporting requirements to illustrate the application of the above principles.



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The Board decided to seek stakeholder feedback through the DP on possible simplifications to disclosure requirements based on those in AASB 1060 for application to transactions expected to be in the scope of the Tier 3 requirements.

Sustainability Reporting

The Board received an update on the key themes of the feedback from outreach events to date and responses to AASB Exposure Draft ED 321 *Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures*.

The majority of the stakeholders were supportive of:

- (a) the scope and direction of the AASB's and the ISSB's work on sustainability-related financial reporting; and
- (b) implementing sustainability-related financial reporting in Australia.

Many attendees raised concerns about:

- (a) the scalability of the proposals in the ISSB's two initial Exposure Drafts – although the ISSB has stated that all entities in the for-profit sector can apply these proposals, small and medium-sized entities typically would be unable to implement and apply the proposals due to:
 - (i) the complexity of the proposals (for example, proposals for the disclosure of Scope 3 greenhouse gas emissions disclosures and scenario analysis); and
 - (ii) the lack of sufficient and affordable resources available in the market (for example, the lack of sufficiently skilled personnel and the cost of software that would be needed to obtain the data required to comply with the proposals);
- (b) the current skill gap in the domestic and international markets – for example, these attendees said that the resources to implement the proposals currently do not exist (or exist only in a limited form in larger for-profit sector entities) and would need to be built over time through education; and
- (c) the auditability and enforceability of the ISSB's proposals – some attendees said that auditors would be unable to determine or test an entity's compliance with the proposals in [Draft] IFRS S1 given how open-ended the proposals are.

The AASB's submission to the ISSB will be finalised via a subcommittee due to the timing of the comment period, taking into account further feedback from stakeholders.



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IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting*

Subject to considering stakeholders' views on the IPSASB Consultation Paper (CP) *Advancing Public Sector Sustainability Reporting*, the Board decided to support the IPSASB's Preliminary Views:

- (a) there is a need for global public-sector-specific sustainability reporting guidance;
- (b) the IPSASB's experience, processes and relationships would enable it to develop global public-sector-specific sustainability reporting guidance effectively;
- (c) develop general and financial sustainability disclosure guidance and broader public-sector-specific sustainability disclosure guidance, working in collaboration with other international bodies where appropriate;
- (d) general requirements for sustainability-related information and climate-related disclosures should be addressed first; and
- (e) the following enablers would be needed for the IPSASB to develop global public-sector-specific sustainability reporting guidance:
 - (i) additional financial and human resources;
 - (ii) establishment of an advisory Sustainability Reference Group;
 - (iii) IPSASB members' time;
 - (iv) coordination and engagement with other international sustainability reporting standard setters; and
 - (v) regular dialogue with national standard setters.

The Board will consider comments from stakeholders on the CP and a draft submission to the IPSASB at its next meeting. The submission will be prepared jointly with the FRC and the AUASB.

Agenda Consultation

The Board considered its responses to the feedback received on Invitation to Comment ITC 46 AASB *Agenda Consultation 2022–2026* and decided to:

- (a) remove the following inactive projects from the work program:
 - (i) remuneration reporting;
 - (ii) crowd-sourced equity funding; and
 - (iii) definition of fundraising;



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- (b) retain the public sector long-term discount rates project in the work program;
- (c) add the following projects to the standard-setting work program:
 - (i) service performance reporting; and
 - (ii) imputation franking credit disclosures
- (d) add the following projects to the research work program:
 - (i) intangible assets; and
 - (ii) going concern disclosures; and
- (e) monitor and influence the development of digital financial reporting as appropriate.

The Board supported the balance of the AASB's 2022–2026 activities across the sectors and the proposed overall timelines for those projects added to the work program.

The Board will consider a draft feedback statement at the next meeting. The feedback statement is expected to be published in September 2022.

Accounting Policy Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities

The Board voted to make Accounting Standard AASB 2022-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities*. The Standard applies to annual periods ending on or after 30 June 2022.

AASB 2022-4 amends AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards*. The amendments are relevant to for-profit private sector entities that are required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards.

When such entities prepare special purpose financial statements (SPFS) that refer to Australian Accounting Standards, the amendments require the financial statements to include disclosures that inform users of the basis upon which they were prepared. This includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in Australian Accounting Standards. Some of the existing disclosure requirements in AASB 1054 are also made applicable to such SPFS.



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IPSASB Update

Mr Todd Beardsworth, Assistant Auditor-General, New Zealand, and IPSASB member, presented to the Board on the recent activities and work program of the IPSASB, including major projects.

Audit Engagement Disclosures

The Board noted a draft Exposure Draft being developed by the NZ Accounting Standards Board to propose the disclosure of fees for various categories of services performed by an entity's auditor. The Board will consider whether the draft NZ ED would be a suitable base for developing an Australian ED. Audit engagement disclosures were recommended by the Parliamentary Joint Committee on Corporations and Financial Services enquiry *Regulation of Auditing in Australia*, to which the Government has not yet responded.

The Board also noted draft guidance for audit committees prepared by the AICD, which includes a recommendation to disclose information about the auditor's tenure every five years.

Post-Implementation Reviews

The Board received an update on its Post-implementation Review project and considered the not-for-profit-specific guidance relating to control and consolidation requirements, and the application of the definition of a structured entity. Consultation documents will be prepared in due course.

Research Update

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

- (a) dialogue series sessions held jointly with CPA Australia and CA ANZ – Task Force on Climate-related Financial Disclosures Implementation (23 March 2022), Intangible Assets (9 May 2022) and a forthcoming session on digital financial reporting (17 August 2022);
- (b) the AASB SSRN Working Papers Series, launched in April 2022;
- (c) a call, in partnership with the IASB, for academics interested in collaborating on research on making materiality judgements;
- (d) the 2022 AASB Research Forum, to be held jointly with RMIT University on 5 December 2022; and
- (e) progress on research projects:
 - (i) joint research with the Malaysian Accounting Standards Board (MASB) on transition requirements and practical expedients in relation to lessees applying IFRS 16/AASB 16 *Leases*;

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- (ii) understandability of accounting standards; and
- (iii) common transactions of Tier 3 NFP entities.

Recently Approved Documents

Since last reported (20 May 2022), 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 June 2022	AASB 2022-4 <i>Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities</i>	30 June 2022

Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, the ISSB, 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
AASB	ED 320 Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities	ED 320	30 June 2022	–
ISSB	ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information	ED 321	15 July 2022	29 July 2022
ISSB	ED/2022/S2 Climate-related Disclosures	ED 321	15 July 2022	29 July 2022
IPSASB	ED 82 Retirement Benefit Plans	–	–	1 August 2022
IFRS IC	Tentative Agenda Decision Multi-currency Groups of Insurance Contracts	–	–	19 August 2022
IPSASB	Consultation Paper Advancing Public Sector Sustainability Reporting	–	–	9 September 2022
ISSB	Staff Request for Feedback Staff Draft of the IFRS Sustainability Disclosure Taxonomy	–	–	30 September 2022
IPSASB	Consultation Paper Natural Resources	–	–	17 October 2022



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AASB 2022 Scheduled Board Meeting Dates

3 August
21-22 September
3 November
14-15 December

August 2022 AASB meeting

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

Insurance Activities in the Public Sector
IPSASB Consultation Paper <i>Advancing Public Sector Sustainability Reporting</i>
Not-for-Profit Private Sector Financial Reporting Framework
Post-implementation Review – income of NFP entities
Post-implementation Review – service concession arrangements (grantors)