



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 204
21 September 2020

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 16 – 17 September 2020. At its 177th meeting, the Board made key decisions in relation to:

[Interest Rate Benchmark Reform – Phase 2](#)

[Primary Financial Statements](#)

[Goodwill and Impairment](#)

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

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

The Board also discussed the following topics:

[IPSASB Exposure Drafts on Revenue and Transfer Expenses](#)

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

[Conceptual Framework – Not-for-Profit Entities](#)

[Audit Fee Disclosure and Going Concern](#)

Interest Rate Benchmark Reform – Phase 2

The Board made AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*, which will be issued shortly. The Standard addresses issues that may arise from interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments apply to annual reporting periods beginning on or after 1 January 2021 but can be adopted early.

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AASB Action Alert

Issue No: 204
21 September 2020

The Board also decided to issue an Exposure Draft with a 30-day comment period that will propose:

- no disclosure concessions for entities applying Tier 2 Reduced Disclosure Requirements in respect of the additional disclosure requirements added by AASB 2020-8;
- no additional disclosure requirements under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*; and
- relief from the requirement in AASB 1060 to disclose the financial impact of the change in accounting policies – equivalent to the relief provided by AASB 2020-8 for Tier 1 and Tier 2 (RDR) entities.

Primary Financial Statements

The Board approved its comment letter on the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures*. In finalising its views, the Board decided to recommend that the IASB:

- reconsider whether it is necessary to require disclosure of management performance measures (MPMs) in the financial statements or whether this could be addressed in the IASB's project to revise the Management Commentary Practice Statement. The Board acknowledged that while users might find the proposed information useful, it is uncertain whether any incremental benefits from the disclosure would outweigh the additional costs incurred in the preparation and audit of the financial statements. However, as some entities may seek to include MPMs in the financial statements to provide users with management's view of their financial performance, the Board recommends that the IASB permit, but not require, the disclosure of MPMs. Where MPMs are disclosed, the Board noted that they should comply with the proposed requirements (subject to some previously identified improvements), so that the disclosures are robust and auditable;
- provide additional guidance to assist entities to identify their main business activities. The Board noted this would be particularly relevant for diversified groups, which have multiple main business activities, with some of those main business activities having become significant over time;
- develop additional criteria to determine when it is reasonable to expect that an item of income or expense has limited predictive value and hence should be considered as an unusual item; and
- clarify its intention as to whether an entity should identify a type of income as unusually low if it is expected to recur at a higher amount for several future reporting periods.

Goodwill and Impairment

The Board made preliminary decisions to provide the following feedback on the IASB's Discussion Paper DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*:



AASB Action Alert

Issue No: 204
21 September 2020

- express general support for retaining the impairment-only approach to accounting for goodwill, subject to the impairment test being improved and further guidance being provided. In particular, the Board noted that goodwill is not always allocated to the lowest level at which it is being monitored and therefore not tested for impairment at the appropriate level, often due to difficulties in understanding and applying the requirements of IAS 36 *Impairment of Assets*;
- not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker (CODM) to monitor those acquisitions. While noting that the disclosures are responding to a need for further information expressed by investors, the Board questioned whether this type of information would be required to meet the objectives of financial statements as proposed in the IASB's Exposure Draft *General Presentation and Disclosures* or whether this would be more appropriately dealt with in the IASB's project to revise the Management Commentary Practice Statement. The Board also noted that no similar information is required for internally developed intangible assets and raised concerns about the auditability of the information;
- in relation to the proposed simplifications to the annual impairment test, recommend:
 - requiring disclosure if the impairment test has not been performed and the reason why, if the requirement to test goodwill for impairment annually is removed;
 - reconsidering the list of impairment indicators in IAS 36, with a greater focus on internal indicators and emphasising that it is not an exhaustive list;
 - providing additional implementation guidance to ensure consistency in determining post-tax cash flows if the use of either pre- or post-tax discount rates is permitted when performing a value in use calculation; and
 - developing robust guidance about when it is appropriate for an entity to include cash flows from uncommitted future restructurings and asset enhancements; and
- not support a requirement to present total equity excluding goodwill on the statement of financial position.

The Board intends to finalise its comments to the IASB at its November 2020 meeting, after considering any further feedback from Australian stakeholders in response to the Discussion Paper, which is open for comment to the AASB until 2 October 2020.



Fair Value Measurement for Not-for-Profit Entities

The Board considered stakeholders' feedback on the tentative proposals for additional disclosures by not-for-profit public sector entities in relation to restricted land held primarily for its service capacity. The Board asked staff to present possible options to progress the fair value measurement considerations in respect of such restricted land at its next meeting, including consideration of:

- developing staff FAQs to provide guidance for not-for-profit public sector entities in disclosing qualitative information about the methodologies used in measuring such land at fair value; and
- prospectively requiring disclosure of the acquisition cost, and the adjustment deducted from cost, for a parcel of land that was acquired during the reporting period where the adjustment to reflect its restricted public-sector-specific use is material.

The Board also asked staff to continue consulting with users of public sector entities' financial statements regarding the current value measurement perspective most useful to them to further inform the Board's deliberations.

Right-of-Use Assets of Not-for-Profit Entities

The Board reaffirmed its decision to undertake the project to reassess the temporary relief granted through AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*, which provides a choice for not-for-profit entity lessees to measure a class of right-of-use assets arising under concessionary leases either at cost or at fair value, when it has progressed further the Not-for-Profit Private Sector Financial Reporting Framework project and the guidance on the fair value measurement of right-of-use assets. The Board asked staff to obtain further information from not-for-profit entities in both the private sector and the public sector to assist the Board's future analysis of the scope and urgency of the project.

IPSASB Exposure Drafts on Revenue and Transfer Expenses

The Board tentatively decided to provide following feedback to the IPSASB on three Exposure Drafts: ED 70 *Revenue with Performance Obligations*, ED 71 *Revenue without Performance Obligations* and ED 72 *Transfer Expenses*:

- The Board supports the proposals in ED 70 as it is aligned with the principles in AASB 15 *Revenue from Contracts with Customers*.
- In respect of ED 71, the Board noted it had reached a different conclusion to the IPSASB's proposals when developing AASB 1058 *Income of Not-for-Profit Entities* and will include its rationale in the submission;



AASB Action Alert

Issue No: 204
21 September 2020

- The Board generally supports the proposals in ED 72 but has concerns regarding the potential practical difficulties and compliance cost for a transfer provider in monitoring a transfer recipient's satisfaction of its performance obligations under a binding arrangement. The Board is also of the view that more guidance is needed to explain the interaction between ED 72 and other IPSASB Standards.

A subcommittee of the Board will finalise the submission out of session, including consideration of any further feedback from Australian stakeholders, in particular on whether the proposals in ED 72 are practicable.

Not-for-Profit Private Sector Financial Reporting Framework

The Board noted the feedback from the initial targeted consultations with stakeholders, including issues raised on the scope and nature of the initial design of the framework based on the New Zealand Tier 3 and Tier 4 Standards for not-for-profit private sector entities: *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)* and *Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)*. The Board asked staff to continue with the targeted consultations with stakeholders to further inform the Board's deliberations on the next steps at a future meeting.

Conceptual Framework – Not-for-Profit Entities

The Board considered feedback from its Conceptual Framework Project Advisory Panel on an initial draft of amendments to its *Conceptual Framework for Financial Reporting* to enable application of the Conceptual Framework by not-for-profit entities.

The Board reaffirmed its tentative decision to progress the project in two stages, with the scope and timing of the second stage to be determined in due course based on further research and outreach. The Board noted that the timing of applying the Conceptual Framework to not-for-profit entities will be determined by the Board's project to develop a financial reporting framework for not-for-profit private sector entities.

To develop not-for-profit amendments to the Conceptual Framework for public consultation, the Board tentatively approved:

- transferring with minor changes Aus paragraphs applicable to not-for-profit entities from the existing *Framework for the Preparation and Presentation of Financial Statements*;
- adding further amendments, most of which would respond to changes introduced in the *Conceptual Framework for Financial Reporting*;

AASB Action Alert

Issue No: 204
21 September 2020

- applying the chapters on Measurement and Concepts of Capital and Capital Maintenance to not-for-profit entities, notwithstanding that they may be reviewed for further not-for-profit considerations in Stage 2 of the project; and
- excluding application of paragraphs 6.55 and 6.56 of the Conceptual Framework to not-for-profit entities' non-financial assets held primarily for their service potential, on the basis that the relevance of different measurement bases to such assets does not depend on whether they produce cash flows directly or indirectly.

The Board noted that staff will continue to analyse issues raised through further research and outreach activities and asked staff to report back to the Board during the first half of 2021.

Audit Fee Disclosure and Going Concern

The Board noted the results of a targeted survey of the Board's User Advisory Committee regarding audit fee disclosures.

The Board also noted that the need for a project by the IASB to address going concern disclosures and the basis of preparation of financial statements where an entity is no longer a going concern will be raised by the AASB Chair at the forthcoming meeting of the International Forum of Accounting Standard Setters.

No decisions were made.

Recently Approved Documents

Since last reported (12 June), the Board has approved the following Standards, Exposure Drafts or other documents.

Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
15 June 2020	AASB 2020-3 <i>Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments</i>	1 January 2022
15 June 2020	AASB 2020-4 <i>Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions</i>	1 June 2020
6 July 2020	ED 303 <i>Covid-19-Related Rent Concessions: Tier 2 Disclosures</i>	Closed

AASB Action Alert

Issue No: 204
21 September 2020

Date approved	Document	Effective Date (Standards/Int'ns) Due Date for Submissions (EDs)
27 July 2020	AASB 2020-5 <i>Amendments to Australian Accounting Standards – Insurance Contracts</i>	1 January 2021
10 August 2020	AASB 2020-6 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date</i>	1 January 2022
10 August 2020	AASB 2020-7 <i>Amendments to Australian Accounting Standards – Covid19-Related Rent Concessions: Tier 2 Disclosures</i>	1 July 2021
17 September 2020	AASB 2020-8 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2</i>	1 January 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.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2019/7 General Presentation and Disclosures	298	Closed	30 September 2020
IASB	Comprehensive Review of the IFRS for SMEs Standard	n/a	n/a	27 October 2020
IPSASB	ED70 Revenue with Performance Obligations	n/a	n/a*	1 November 2020
IPSASB	ED71 Revenue without Performance Obligations	n/a	n/a*	1 November 2020
IPSASB	ED72 Transfer Expenses	n/a	n/a*	1 November 2020
IASB	Discussion Paper DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment	n/a	2 October 2020	31 December 2020



AASB Action Alert

Issue No: 204
21 September 2020

AASB 2020 Scheduled Board Meeting Dates

11 – 12 November 2020

November 2020 AASB meeting

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

Goodwill and Impairment

Not-for-Profit Private Sector Financial Reporting Framework

Minimum Disclosures for SPFS for For-Profit Entities

Fair Value Measurement for Not-for-Profit Entities