



# AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 217  
26 September 2022

## Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 21 September 2022. At the meeting the Board made key decisions in relation to:

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

[Insurance Activities in the Public Sector](#)

[Not-for-Profit Domestic Post-implementation Reviews](#)

The Board also discussed the following topics

[Sustainability Reporting](#)

[Research Update](#)

## Fair Value Measurement for Not-for-Profit Public Sector Entities

The Board considered feedback received on AASB Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* and made the following decisions on the modifications to AASB 13 *Fair Value Measurement* for not-for-profit (NFP) public sector entities for measuring non-financial assets not held primarily for their ability to generate net cash inflows.

*Highest and best use*

The modifications would:

- (a) specify that the asset's current use is presumed to be its highest and best use unless it is highly probable that the asset will be sold, distributed or used for an alternative purpose to its current use at the measurement date (for an asset that would be disposed of, the asset's current use is presumed to be its highest and best use unless the asset qualifies as 'held for sale' under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*); and

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- (b) clarify that an asset's use is 'financially feasible' if market participants would be willing to invest in the asset's service capacity, considering both the asset's ability to be used to provide needed goods or services to beneficiaries and the resulting cost of those goods or services.

### *Market participant assumptions*

Regarding using market participant assumptions to measure such an asset's fair value, including when the cost approach is applied, if both the market selling price of a comparable asset and all other market participant data required to measure the fair value of the asset are not observable, the modifications would require an entity to use its own assumptions as a starting point and to adjust those assumptions if reasonably available information indicates that other market participants would use different data.

### *Application of the cost approach*

When estimating the costs currently required for a market participant buyer to acquire or construct a reference asset when applying the cost approach to measure the fair value of the subject asset, the modifications would require an entity to:

- (a) assume the reference asset will be acquired or constructed at the subject asset's existing location; and
- (b) include the following costs (among other costs) in the reference asset's replacement cost if they would need to be incurred upon the hypothetical acquisition or construction of the reference asset at the measurement date, and if data for them are reasonably available:
- (i) costs required to restore another entity's asset, if the asset that would need restoration existed at the measurement date and would be disturbed in a hypothetical acquisition or construction of the reference asset. However, such costs would be excluded if they relate to restoration of an asset of another entity included in the consolidated group (if any) to which the entity belongs;
  - (ii) other disruption costs that would hypothetically be incurred when acquiring or constructing the reference asset at the measurement date; and
  - (iii) if the subject asset is fixed to a parcel of land, and land available in the proximity of the subject asset has features needing removal or remediation that the subject asset does not:
    - costs required to prepare the land for the hypothetical construction of the reference asset; and
    - costs required to remove and dispose of any unwanted existing structures on the land to make way for the hypothetical construction of the reference asset.



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### *Economic obsolescence*

The modifications would also specify that any surplus capacity of the asset that is necessary for stand-by or safety purposes is not identified as representing economic obsolescence.

### *Finalising the Standard*

The Board noted that applying some of the proposed modifications may not be compliant with IFRS 13 *Fair Value Measurement*, but considered that this is justified to reduce the cost for NFP public sector entities in applying AASB 13 to measure this type of non-financial asset.

The Board also confirmed that the amending Standard would:

- (a) not mandate the measurement technique to apply for measuring the fair value of specific assets, such as land subject to public-sector-specific restrictions;
- (b) apply only to NFP public sector entities; and
- (c) apply prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted.

The Board agreed to issue a Fatal-Flaw Review (FFR) Draft version of the amending Standard for a 30-day comment period. The Board subcommittee is expected to finalise the FFR Draft Standard out of session in mid-October 2022.

### **Insurance Activities in the Public Sector**

The Board continued deliberating on the feedback received on Exposure Draft AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* and made the following decisions on modifications to AASB 17 *Insurance Contracts* for public sector entities.

The modifications would:

- (a) specify that an arrangement would be within the scope of AASB 17 only if it is enforceable and has an identifiable coverage period. When an arrangement is both enforceable and has an identifiable coverage period:
  - (i) the entity would determine whether the arrangement falls within the scope of AASB 17 by applying the 'source and extent of funding' and 'similarity of risks covered and benefits provided' indicators; and
  - (ii) in the event that the indicators in (i) are not definitive, would determine whether the arrangement falls within the scope of AASB 17 by applying the 'management practices and assessing financial performance' and the 'assets held to pay benefits' factors;



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- (b) exempt entities from sub-grouping insurance contracts into onerous versus non-onerous groups and by annual cohorts of insurance contracts issued;
- (c) amend the initial recognition requirements so that the timing of initially recognising an insurance contract does not depend on when contracts become onerous;
- (d) provide an accounting policy choice for an entity to apply the premium allocation approach in measuring liabilities for remaining coverage without the need to consider the eligibility criteria in AASB 17 paragraph 53;
- (e) provide guidance on determining the coverage period and contract boundary of an arrangement by:
  - (i) explaining that both formal (legislated) and customary review processes would be considered to determine when, in substance, the entity has the practical ability to reassess risks and benefits in an arrangement; and
  - (ii) noting that, in determining a contract coverage period, the public sector entity will have regard to the underlying period of coverage in any related contract issued by a private sector insurer; and
- (f) require additional disclosures identifying:
  - (i) relevant laws or regulations under which prices and benefits are set; and
  - (ii) timeframes for which pricing and benefits are typically determined.

The Basis for Conclusions will note that the modifications are justified to address public-sector-specific issues that are different from the circumstances of private sector not-for-profit entities.

The Board also confirmed that the amending Standard would:

- (a) not modify the risk adjustment requirements in measuring insurance liabilities;
- (b) not exempt public sector captive insurers from applying AASB 17 in their separate financial statements, but would provide an accounting policy choice to apply either AASB 17 or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to prepare any administered item disclosures under AASB 1050 *Administered Items*; and
- (c) defer the application of AASB 17 for public sector entities to annual periods beginning on or after 1 July 2025, with earlier application permitted.

The Board agreed to issue a Fatal-Flaw Review (FFR) Draft version of the amending Standard for a 14-day comment period. The Board subcommittee is expected to finalise the FFR Draft Standard out of session in mid-October 2022.



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### Not-for-Profit Domestic Post-implementation Reviews

The Board received an update on its Post-implementation Review (PIR) projects. Regarding the not-for-profit (NFP) domestic PIRs, the Board approved the issue of two Invitations to Comment (ITCs) for a 150-day comment period. One ITC will address the topic of income of NFP entities. The second ITC will address the topics of control and consolidation, the definition of a structured entity, related party disclosures by public sector entities and disclosures required in special purpose financial statements about the extent of an entity's compliance with Australian Accounting Standards. A subcommittee of the Board is expected to finalise both ITCs out of session.

### Sustainability Reporting

The Board received an update on the Sustainability Reporting project and international sustainability reporting developments.

### 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 – *Digital Financial Reporting: Why does it matter?* (17 August 2022) and a session on external reporting for not-for-profit private sector entities (14 September 2022);
- (b) the call in July for expressions of interest to invite researchers to submit research proposals for the 2023 AASB Research Forum resulted in nine research proposals being received; and
- (c) two research proposals were received in response to the call for expressions of interest regarding research on materiality judgements.

### Recently Approved Documents

Since last reported (4 August), the Board has not approved any Standards, Exposure Drafts or other proposal documents.



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### 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
ISSB	Staff Request for Feedback <a href="#">Staff Draft of the IFRS Sustainability Disclosure Taxonomy</a>	–	–	30 September 2022
IPSASB	Consultation Paper <a href="#">Natural Resources</a>	–	–	17 October 2022
IASB	Exposure Draft <a href="#">Third edition of the IFRS for SMEs Accounting Standard</a>	–	–	7 March 2023

### AASB 2022 Scheduled Board Meeting Dates

10 November

14-15 December

### November 2022 AASB meeting

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

IFRS for SMEs ED re AASB 1060 Update

Insurance Activities in the Public Sector – consequential amendments

Sustainability Reporting