

AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 210
13 September 2021

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 8 – 9 September 2021. At the meeting the Board made key decisions in relation to:

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

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

[**Application of AASB 1 by an Australian Subsidiary of an Overseas Parent**](#)

[**Insurance Activities in the Public Sector**](#)

[**IPSASB Exposure Drafts on Public Sector Measurement**](#)

[**AASB Agenda Consultation**](#)

[**IASB Agenda Consultation**](#)

The Board also discussed the following topics:

[**Intangible Assets**](#)

[**Management Commentary**](#)

[**Post-Implementation Reviews**](#)

[**Disclosure Initiative**](#)

[**Research Update**](#)

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

The Board considered several implementation issues raised by not-for-profit stakeholders in the short-term, narrow-scope project on AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* and decided to:

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- (a) add a narrow-scope project to its work program to consider accounting for right-of-use assets under concessionary leases by not-for-profit entities;
- (b) add an example to the AASB 15 Australian illustrative examples for not-for-profit entities on the principles to be applied in accounting for upfront payments;
- (c) amend AASB 1058 Illustrative Example 3A to clarify the analysis regarding the recognition of a financial liability; and
- (d) develop additional educational material to support consistent application of AASB 15 and AASB 1058 regarding:
 - (i) factors to consider in assessing whether a contract has sufficiently specific performance obligations;
 - (ii) principal vs agent considerations;
 - (iii) the principles underlying these Standards and their interaction, to help stakeholders to understand the financial reporting outcomes; and
 - (iv) identifying which Standard applies to various types of income of not-for-profit entities.

The Board will consider the remaining issues in the scope of the project and draft proposals to amend the AASB 15 and AASB 1058 illustrative examples at its next meeting. Issues beyond the scope of this project will be considered in the post-implementation review of the Standards.

Not-for-Profit Private Sector Financial Reporting Framework

The Board considered proposals to include in a Discussion Paper (DP) on the Financial Reporting Framework in respect of entities determining their accounting policies under Tier 3 reporting requirements.

Transactions not covered by Tier 3 requirements

The Board decided to propose that entities in the scope of Tier 3 should apply the requirements of a higher tier of Australian Accounting Standards in full for transactions not covered by the Tier 3 reporting requirements.

Where transactions are also not covered in Tier 1 or Tier 2 requirements, judgement would be required to determine an accounting policy. Entity management would need to consider the applicability of the following sources, in descending order:

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- (a) the principles and requirements in Tier 3 reporting requirements dealing with similar and related transactions or events; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework, to the extent they do not conflict with the Tier 3 reporting requirements.

In making the judgement, management could also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework, other accounting literature and accepted industry practices, to the extent these do not conflict.

Transactions covered by Tier 3 requirements

The Board decided to include in the DP for stakeholder feedback the following options on applying higher-tier requirements for topics or transactions that are covered by Tier 3 requirements:

- (a) allow application of an accounting policy set out in a higher tier for any topic; or
- (b) allow application of a higher-tier accounting policy only for specific topics permitted by the Board, or
- (c) prohibit application of an accounting policy set out in a higher tier.

Application of AASB 1 by an Australian Subsidiary of an Overseas Parent

To assist entities with the first-time preparation of general purpose financial statements (GPFS), the Board decided to issue an Exposure Draft proposing the following narrow-scope amendments. The Exposure Draft will have a 60-day comment period and will be issued shortly.

Optional exemption relating to the measurement of the assets and liabilities of subsidiaries, associates and joint ventures

Paragraph D16 of AASB 1 *First-time Adoption of Australian Accounting Standards* contains an optional exemption that permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. This exemption is currently available only where the entity's parent had adopted Australian Accounting Standards and cannot be applied where the parent instead adopted IFRS Standards.

Following the removal of special purpose financial statements for certain for-profit private sector entities from 1 July 2021, some foreign controlled entities will be required to prepare GPFS for the first time. In many cases, the Australian entity's overseas parent prepares consolidated financial statements that comply with IFRS Standards. The ability of the Australian entity to use that information on transition to

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GPFS will permit a less costly transition to Australian Accounting Standards while maintaining the usefulness of the financial statements.

For this reason, the Board decided to propose an amendment to paragraph D16(a) to allow entities to apply the exemption where their parent has adopted either Australian Accounting Standards or IFRS Standards.

Entities transitioning from single-entity Tier 2 Reduced Disclosure Requirements financial statements to consolidated Tier 2 Simplified Disclosures financial statements

AASB 1053 *Application of Tiers of Australian Accounting Standards* (paragraph 18A(b)) provides access to transition relief via AASB 1 for entities that were preparing special purpose financial statements (SPFS) that complied with all the recognition and measurement requirements of Australian Accounting Standards, without presenting consolidated financial statements, on the basis that neither the parent nor the group was a reporting entity.

The Board noted that entities that were preparing unconsolidated GPFS on the same basis (i.e. GPFS that complied with all the recognition and measurement requirements without presenting consolidated financial statements on the basis that neither the parent nor the group was a reporting entity) are not able to access the same transition relief. Affected entities include some Significant Global Entities (SGEs) lodging such unconsolidated GPFS with the Australian Taxation Office and SPFS with ASIC.

For-profit private sector entities in this position would need to prepare consolidated financial statements for the first time from 1 July 2021 if within the scope of the amendments made by AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

The Board decided it would be appropriate to extend the transition relief to entities transitioning from such unconsolidated GPFS (Tier 2 – Reduced Disclosure Requirements) to consolidated GPFS (Tier 2 – Simplified Disclosures).

Insurance Activities in the Public Sector

The Board continued its consideration of issues relating to the application of AASB 17 *Insurance Contracts* to public sector entities. The Board decided to propose:

- (a) extending the mandatory application date of AASB 17 for public sector entities at least until annual reporting periods beginning on or after 1 July 2025, with early adoption to be permitted;



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- (b) exempting public sector entities from applying the requirement in paragraph 16 to divide a portfolio of insurance contracts into onerous and non-onerous subgroups of contracts, but require disclosure about the nature of the pricing process including, for example, any use of standardised pricing and cross-subsidisation that might occur between different groups of contracts;
- (c) exempting public sector entities from applying the requirement in paragraph 22 to divide a portfolio of insurance contracts into annual cohorts based on their issue date;
- (d) modifying paragraph 25 so that the timing of recognition of a group of insurance contracts does not depend on when the group becomes onerous;
- (e) not specifically exempting public sector captive insurers from applying AASB 17 in their separate financial statements; and
- (f) not making public-sector-specific modifications to AASB 17 relating to:
 - (i) the measurement of investments backing insurance liabilities; and
 - (ii) the classification and presentation of risk mitigation program and other similar costs, which are not directly attributable to particular insurance arrangements.

The Board confirmed its decision to propose not making public-sector-specific modifications to the requirement to include a risk adjustment for non-financial risk in measuring liabilities for incurred claims. The Board decided that its Basis for Conclusions in the forthcoming consultation document should note the range of other possible approaches considered by the Board, including providing a rebuttable presumption for a risk adjustment based on a 75% probability of adequacy.

The Board confirmed its earlier decisions to propose the following as useful indicators, amongst other indicators, for identifying whether an arrangement should be accounted for under AASB 17:

- (a) the extent to which an arrangement is binding on the public sector entity is determined (in part) by whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively. The Board decided that practical ability is determined by reference to existing or substantively enacted regulation without consideration of political issues; and
- (b) the public sector entity adopts liability management practices normally associated with insurance contracts. The Board decided that this indicator should include, as an example, claims management practices that involve consideration of the extent to which claims are assessed to cater specifically for a beneficiary's losses, rather than being broadly-determined standardised amounts.

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IPSASB Exposure Drafts on Public Sector Measurement

The Board considered stakeholder feedback on fair value and current operational value (COV) measurement, including comment letters received on AASB Invitation to Comment ITC 45. Further to the decisions made in its August 2021 meeting, the Board decided its submission to the IPSASB on Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* and ED 77 *Measurement* should also include the following comments:

- (a) the Board's tentative views in respect of the cost of a modern equivalent asset used to estimate the fair value of an operational capacity asset under the cost approach, which may be relevant for the IPSASB's proposed guidance on estimating an asset's COV:
 - (i) all necessary costs intrinsically linked to acquiring the asset at the measurement date should be included;
 - (ii) in contrast with the IPSASB's proposal in ED 77 para. B35(a), the accounting policy choice regarding capitalisation of borrowing costs at an asset's initial recognition is irrelevant to how those costs should be treated in subsequent current value measurements of the asset; and
 - (iii) the notional replacement should be assumed to be in the same location as the existing asset is situated or used;
- (b) ED 77 is unclear regarding whether a loss of utility of an asset should be treated as surplus capacity, an indication of economic obsolescence or an indication of impairment;
- (c) the Board supports the alignment of IPSAS guidance on fair value with IFRS 13 *Fair Value Measurement*, but the application of fair value should not be limited to non-financial assets held primarily for their financial capacity;
- (d) the acknowledgement that the income approach would have limited use in estimating an asset's COV should be noted in the IPSAS and not only in the Basis for Conclusions; and
- (e) in respect of the proposed deletion of certain measurement bases from the IPSASB Conceptual Framework, the Board:
 - (i) supports deletion of market value upon the inclusion of fair value; and
 - (ii) considers better justification is needed for deleting replacement cost and value in use.

A subcommittee of the Board will finalise the submission out of session, including considering any further stakeholder feedback on ITC 45.

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AASB Agenda Consultation

The Board decided to include the following potential research projects in the forthcoming Invitation to Comment (ITC) *AASB Agenda Consultation 2022–2026* for stakeholder feedback:

- (a) accounting standards research – encouraged disclosures; AASB 112 *Income Taxes* and tax transparency disclosures; and intangible asset recognition and measurement;
- (b) external reporting research – sustainability reporting; and service performance reporting;
- (c) emerging technology and reporting research – digital financial reporting; and
- (d) enhancing standard-setting process research – costs and benefits analysis.

The Board also decided to invite respondents to suggest other research projects and the scope of these projects.

The ITC is expected to be released by early October for comment.

IASB Agenda Consultation

The Board further considered a draft submission to respond to the IASB's Request for Information *Third Agenda Consultation*. The Board previously decided on its recommendations for the three main areas of the IASB's Agenda Consultation at the June 2021 meeting.

In relation to the strategic direction and balance of the IASB's activities, the Board decided that its submission should present the following views:

- (a) in respect of the recommendation for the IASB to increase its existing level of focus on digital financial reporting – greater emphasis should be placed on ensuring the IFRS Taxonomy is as comprehensive as possible;
- (b) in respect of the recommendation for the IASB to increase its existing level of focus on improving the understandability and accessibility of IFRS Standards – determining and removing any redundant aspects of Standards is a key aspect of the simplification process; and
- (c) in respect of the recommendation for the IASB to maintain its existing level of stakeholder engagement – the importance and positive effect of the IASB's recent increased effort in this area should be acknowledged.

In relation to the financial reporting issues that could be added to the IASB's upcoming work plan, the Board decided the following views for its submission:

- (a) in respect of the recommendation for the IASB to commence a project on intangible assets – the recommendation for improving the disclosure requirements in IAS 38 *Intangible Assets* represents

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a short-term solution in addressing the current issues, and a larger project including a holistic review of the Standard will be required in the longer term;

- (b) in respect of the recommendation for the IASB to commence a project on climate-related risks – the scope of such a project should be broader and not limited to requiring further information on the effect of climate-related risks on the carrying amounts of assets and liabilities in the financial statements; and
- (c) in respect of the recommendation for the IASB to commence a project on cryptocurrencies and related transactions – the scope of such a project should not be limited to amending the scope of the Standards for financial instruments, but should address amending the existing Standards to include cryptocurrencies. Additionally, such a project should also include other types of digital assets, such as non-fungible tokens.

Intangible Assets

The Board considered the updated draft AASB Staff Paper *Intangible Assets: Reducing the Financial Statements Information Gap through Improved Disclosures*. The Board decided the Paper should continue to confine its scope to disclosures about unrecognised internally generated intangible assets and unrevalued recognised intangible assets as defined and within the scope of AASB 138/IAS 38 *Intangible Assets*. Accordingly, it should focus on information in financial statements rather than management commentary.

The Board directed staff to consider the following in progressing the draft:

- (a) reframe the Paper to increase its focus on identifying alternative possible disclosure approaches (for example, financial disclosures or non-financial quantitative disclosures), rather than identifying a single preferred approach, on the presumption that the current model results in an information deficiency. The Paper should also more strongly acknowledge that the current recognition and measurement model is due for a fundamental longer-term review that is beyond the Paper's scope;
- (b) provide a stronger justification for the need for change, perhaps by referring to evidence of market failures arising from the current requirements and their effects on entity cost of capital; and
- (c) identify public-sector-specific issues, though noting that those issues are beyond the scope of the Paper and would need further consideration.

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Management Commentary

The Board held an initial discussion on the proposals in IASB Exposure Draft ED/2021/6 *Management Commentary*, which is incorporated in AASB ED 311. The Board intends to consider a draft submission at its next meeting. Submissions on ED 311 are due to the AASB by 1 October 2021.

Post-Implementation Reviews

The Board considered a detailed Post-Implementation Review (PIR) process and work plan for the forthcoming domestic PIRs to be carried out over the 2022–2025 period.

Although the *AASB Due Process Framework for Setting Standards* sets out high-level steps for performing a PIR, supplemented by post-implementation evidence-informed activities outlined in the *AASB Evidence-Informed Standard-Setting Framework*, the Board is developing a more detailed process to support consistent application of the PIR process.

Disclosure Initiative

The Board decided not to support the IASB's proposed disclosure approach set out in its ED/2021/3 *Disclosure Requirements in IFRS Standards — A Pilot Approach* (see AASB ED 309). The Board acknowledged feedback from stakeholders that the proposed approach might not be operational in practice. In the Board's view, disclosure objectives should be considered by the IASB as the standard-setter when developing disclosure requirements. The IASB also should consider alternative approaches to addressing the disclosure problem, such as reaffirming the overarching materiality principle in IAS 1 *Presentation of Financial Statements* and individual Standards.

The Board will consider an analysis of possible alternative approaches and a draft submission at the next meeting.

Research Update

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

- (a) the submission in August to questions posed in the Australian Business Deans Council (ABDC) Consultation Paper. As a consumer of academic research, the Board's submission emphasised it is critically important that the ABDC place significant weight on outlets inclined to publish Australian research;
- (b) confirmation the 2021 AASB Academic Research Forum, to be held on 29 November, will be a virtual event; and



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- (c) evaluation of the responses to the recent call for Expressions of Interest to present at the 2022 AASB Academic Research Forum is about to commence.

Recently Approved Documents

Since last reported (5 August 2021), the Board has not approved any Standards, Exposure Drafts or other proposal documents.

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 | Request for Information <u>Third Agenda Consultation</u> | <u>ITC 44</u> | closed | 27 September 2021 |
| IASB | ED/2021/8 <u>Initial Application of IFRS 17 and IFRS 9—Comparative Information</u> | <u>ED 313</u> | closed | 27 September 2021 |
| IPSASB | ED 80 <u>Improvements to IPSAS, 2021</u> | — | — | 30 September 2021 |
| IASB | ED/2021/6 <u>Revised Practice Statement on Management Commentary</u> | <u>ED 311</u> | 1 October 2021 | 23 November 2021 |
| AASB | ED 312 <u>Disclosure of Accounting Policies – Proposed Amendments to Tier 2 and Other Australian Accounting Standards</u> | <u>ED 312</u> | 4 October 2021 | — |
| IASB | ED/2021/3 <u>Disclosure Requirements in IFRS Standards—A Pilot Approach</u> | <u>ED 309</u> | 15 October 2021 | 12 January 2022 |
| IPSASB | ED 76 <u>Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Instruments</u> | <u>ITC 45</u> | closed | 25 October 2021 |
| IPSASB | ED 77 <u>Measurement</u> | <u>ITC 45</u> | closed | 25 October 2021 |
| IPSASB | ED 78 <u>Property, Plant and Equipment</u> | — | — | 25 October 2021 |
| IPSASB | ED 79 <u>Non-current Assets Held for Sale and Discontinued Operations</u> | — | — | 25 October 2021 |
| IPSASB | <u>Mid-Period Work Program Consultation</u> | — | — | 30 November 2021 |
| IASB | ED/2021/7 <u>Subsidiaries without Public Accountability: Disclosures</u> | — | — | 31 January 2022 |



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AASB 2021 Scheduled Board Meeting Dates

10-11 November

November 2021 AASB meeting

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

Disclosure Initiative

Fair Value Measurement for Not-for-Profit Entities

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

Insurance Activities in the Public Sector

Intangible Assets

Management Commentary

Not-for-Profit Private Sector Financial Reporting Framework