



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 216

4 August 2022

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 3 August 2022. At the meeting the Board made key decisions in relation to:

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

[Insurance Activities in the Public Sector](#)

[Agenda Consultation](#)

The Board also discussed the following topics

[Sustainability Reporting](#)

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

[Post-Implementation Reviews](#)

Not-for-Profit Private Sector Financial Reporting Framework

The Board delegated final approval of the Discussion Paper (DP) on its proposals for Tier 3 reporting requirements for not-for-profit (NFP) private sector entities to a subcommittee. The DP is expected to be issued in early October 2022 with a consultation period of 6 months. The Board also decided not to develop Tier 4 proposals for smaller NFP private sector entities.

The Board discussed a number of sweep and other issues and decided that Tier 3 reporting requirements should:

- (a) allow an entity to apply related Tier 3 requirements to account for transactions and other events that are not specifically addressed and not explicitly scoped out from the Tier 3 Standard,

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- (b) allow an entity to consider the principles and requirements for Tier 1 and Tier 2 reporting dealing with similar and related issues when applying judgement in developing accounting policies for transactions and other events that are explicitly scoped out of the Tier 3 requirements and where no guidance is provided in Tier 2 requirements;
- (c) exclude business combinations from the scope of the Standard (in addition to scope exclusions previously decided by the Board);
- (d) include simpler requirements for government bonds and units held in managed investment schemes and unit trusts as basic financial assets;
- (e) not require an entity to recognise embedded derivatives and derivative financial instruments that are not readily identifiable and measurable;
- (f) align with AASB 9 *Financial Instruments* to identify when cost may be an appropriate estimate of the fair value of financial assets, for example when there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range;
- (g) require a parent entity that presents consolidated financial statements to prepare equity-accounted financial statements. A parent entity that presents separate financial statements would not be permitted to apply the equity method of accounting to measure its interests in associates and joint ventures for those financial statements;
- (h) require a parent entity that presents separate financial statements to measure its interests in subsidiaries:
 - (i) at cost;
 - (ii) at fair value through other comprehensive income; or
 - (iii) by applying the equity method of accounting.
- (i) allow an accounting policy choice for an investor to measure its interests in associates and joint ventures at cost, at fair value through other comprehensive income or by applying the equity method of accounting;
- (j) not permit an entity to subsequently revalue non-financial assets acquired for significantly less than fair value if those assets were initially measured at cost; and
- (k) not include guidance on the accounting for employee on-costs.

The Board decided to seek feedback through the DP to consider the extent of use of intangible assets by smaller not-for-profit private sector entities and the types of intangible assets involved.



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The Board also decided that Tier 3 requirements would be reviewed no more than once every AASB agenda consultation cycle (5 years) following any revisions from a post-implementation review, if necessary, in accordance with the *AASB Due Process Framework for Setting Standards*.

Insurance Activities in the Public Sector

The Board considered the feedback received in submissions on Exposure Draft AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* from both Australian and New Zealand stakeholders.

In respect of the indicators for identifying public sector arrangements within the scope of AASB 17 *Insurance Contracts*, the Board decided to rank the six indicators proposed in ED 319 by:

- (a) making the existence of an 'identifiable coverage period' and the 'enforceable nature of an arrangement' pre-requisites for applying AASB 17;
- (b) identifying 'source and extent of funding' and the 'similarity of risks covered and benefits provided' as primary indicators that would usually have relevance on a sliding scale; and
- (c) identifying 'management practices and assessing financial performance' and 'assets held to pay benefits' as secondary indicators that might help an entity determine whether AASB 17 applies when the other indicators are not definitive.

In addition, the Board decided to include the following further guidance in AASB 17 regarding indicators:

- (a) the 'similarity of risks covered and benefits provided' indicator – explain that similarity between the risks and the benefits themselves is the focus, not the level of riskiness;
- (b) the 'identifiable coverage period' indicator – add guidance regarding a person's inherent status in meeting eligibility criteria for participation in a scheme versus the existence of an identifiable insurance coverage period;
- (c) the 'enforceable nature of an arrangement' indicator – extend the existing guidance in AASB 17 about the place of law and regulation as a part of an insurance contract; and
- (d) the 'management practices and assessing financial performance' indicator – place more emphasis on underwriting, which is a key feature of insurance.

The Board will consider examples of applying the indicators with a view to assessing whether they would assist stakeholders.

In respect of risk adjustments for measuring insurance liabilities, the Board decided:

- (a) consistent with its proposal in ED 319, not to modify the requirements in AASB 17;



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- (b) not to give guidance on whether a public sector entity could conclude that it can have a zero risk adjustment for measuring insurance liabilities, on the grounds that:
 - (i) there is sufficient guidance in AASB 17 – Appendix A explains that a risk adjustment for non-financial risk is the compensation an entity seeks for bearing risk and paragraph B87 explains that whether an entity will have a positive risk adjustment would depend on its level of indifference between certain cash flows and uncertain cash flows with the same central estimate; and
 - (ii) any additional guidance could be perceived as a modification of AASB 17; and
- (c) not to add any public-sector-specific disclosure requirements.

The Board decided to monitor two emerging issues: adverse development covers and investment components that might arise in the public sector.

The Board noted that the due process for finalising the project might require the exposure of a Fatal-Flaw Review Draft Standard or possibly a revised ED. The Board will consider responses to other proposals in ED 319 at its next meeting and will also then address the next steps and timeline for completing the project.

Agenda Consultation

The Board approved the Feedback Statement for the recent AASB Agenda Consultation process for publication, following finalisation out of session by a subcommittee.

Sustainability Reporting

The Board received an update on international sustainability reporting developments. The Board also noted the joint AASB-AUASB submission to the International Sustainability Standards Board.

IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting*

The Board considered targeted stakeholder feedback on the IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting*. Subject to feedback from the FRC and the AUASB, the Board decided to support the IPSASB's Preliminary Views. In addition, the Board decided that the letter to the IPSASB should include the following comments:

- (a) it would be essential for the IPSASB to have Board members and staff members with experience and knowledge in sustainability reporting to be successful in developing sustainability reporting guidance;



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- (b) to keep pace with the ISSB's work and the work of other sustainability standard setters, the IPSASB should consider aligning its priority sustainability reporting topics with the plans of those standard setters; and
- (c) when developing public-sector-specific sustainability reporting guidance, the IPSASB should not aim to merely align with the ISSB's objectives and principles but should consider the specific needs of users of public sector sustainability information and develop guidance to cater for those needs. The IPSASB should consider:
- (i) developing sustainability reporting guidance that would address the wide range of accountability obligations of a government to its community, and not focus only on the activities of a government or an entity;
 - (ii) given that private sector entities have a different focus, whether the objectives and principles of any private-sector sustainability standards or guidance would apply to public sector entities;
 - (iii) whether users would require information at a public sector entity level, a departmental level and/or a whole-of-government level;
 - (iv) the scope and frequency of sustainability reporting that would provide useful information to users. For example, users might benefit from disclosures that highlight any significant movements from the prior year, rather than an annual update on all in-depth scenario analysis;
 - (v) the materiality threshold for disclosing sustainability information that would result in reporting that would meet users' needs;
 - (vi) whether there would be an overlap between the information presented in service performance reports and sustainability reports; and
 - (vii) whether the benefits to users would outweigh the implementation costs and ongoing compliance costs.

A subcommittee of the Board will finalise the comment letter out of session, after considering any further stakeholder feedback.

Post-Implementation Reviews

The Board received an update on its Post-implementation Review (PIR) projects. In respect of the PIR of AASB 1059 *Service Concession Arrangements: Grantors*, the Board approved issuing an Invitation to Comment (ITC) for a 150-day comment period. A subcommittee of the Board is expected to finalise the ITC out of session in September 2022.



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Recently Approved Documents

Since last reported (27 June), 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 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
APESB	Exposure Draft 03/22 Proposed Standard: APES 205 Conformity with Accounting Standards	–	–	15 August 2022
ACNC	Exposure Draft Australian Charities and Not-for-profits Commission Regulations 2022	–	–	15 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

AASB 2022 Scheduled Board Meeting Dates

21-22 September

10 November

14-15 December

September 2022 AASB meeting

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

Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Insurance Activities in the Public Sector

Post-implementation Reviews