



AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 208
24 June 2021

Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 21 – 22 June 2021. At the meeting the Board made key decisions in relation to:

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

[Tier 2 Disclosure Amendments](#)

[Audit Engagement-related Disclosures](#)

[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:

[Income of Not-for-Profit Entities](#)

[Regulatory Assets and Liabilities](#)

[Sustainability Reporting](#)

[Going Concern](#)

[Business Combinations under Common Control](#)

[Research Update](#)

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The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to stakeholders. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions. © Australian Accounting Standards Board, 2021.



Not-for-Profit Private Sector Financial Reporting Framework

The Board continued deliberating the development of a discussion paper and made decisions on the form and content of Tier 3 reporting requirements for not-for-profit (NFP) private sector entities.

The Board discussed whether the primary objective of Tier 3 reporting requirements should be to simplify accounting requirements or to facilitate comparability between Tier 3 NFP private sector entities, and the interaction of such primary objective with the Board's principles for developing the proposed Tier 3 requirements. The Board did not form a view and directed staff to perform further work in this regard.

Setting Tier 3 requirements in the context of Australian Accounting Standards

The Board decided to propose developing Tier 3 reporting requirements as a single stand-alone pronouncement that will:

- (a) be drafted in simple language using terminology tailored to NFP private sector entities of the size contemplated by the Board for Tier 3 entities (revenue between \$500,000 and \$3 million);
- (b) have minimal cross-referencing to requirements of other Australian Accounting Standards;
- (c) include a simple Basis for Conclusions; and
- (d) include application guidance, implementation guidance and template financial statements.

The Board also decided to address maintenance of the proposed pronouncement after forming its preliminary views on Tier 3 reporting requirements.

The Board observed that an entity of the Tier 3 size contemplated by the Board should be able to prepare Tier 1 or Tier 2 general purpose financial statements, if it elects to do so. The Board also decided to consider at a future meeting whether to permit an entity to apply the reporting requirements of a higher tier in other cases, such as for a class of transactions or where a topic or guidance is not included in the Tier 3 reporting requirements.

Accounting for controlled entities

The Board decided not to make any amendments to the 'control' principle set out in AASB 10 *Consolidated Financial Statements* for Tier 3 reporting requirements. The Board noted that a forthcoming post-implementation review of Appendix E of AASB 10 is expected to address the application of this principle for NFP entities. Consequently, the Board decided not to develop any specific guidance or criteria on identifying controlled entities as part of the Tier 3 reporting requirements.



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However, on consideration of the potentially significant effort that might be incurred by Tier 3 entities in identifying controlled entities, the Board decided to allow a NFP private sector entity presenting Tier 3 general purpose financial statements the choice of presenting either:

- (a) consolidated financial statements that consolidate all of its controlled entities, as specified by AASB 10; or
- (b) separate financial statements as its only financial statements.

In addition, where an entity presents separate financial statements as its only financial statements, the Board formed a tentative view that disclosure of the entity's 'significant relationships' should be required, to provide users of the financial statements with information on the other entities that could significantly affect the entity's future financial position or performance. The Board intends to further discuss a definition of 'significant relationships'.

The Board will consider the accounting for investments in associates and joint ventures in consolidated financial statements and the accounting for investments in subsidiaries, associates and joint ventures in separate financial statements at a future meeting.

The Board confirmed its previous decisions not to specify any reporting thresholds as part of this project (and to clarify the implications of this decision for entities in the discussion paper as far as possible) and that Tier 1 and Tier 2 reporting requirements of the NFP private sector differential reporting framework should comprise the respective Tier 1 and Tier 2 reporting requirements currently set out in Australian Accounting Standards.

Tier 2 Disclosure Amendments

The Board decided to issue an Exposure Draft proposing amendments to AASB 1060 and other domestic Standards that would require entities to disclose material accounting policy information rather than significant accounting policies. The proposed amendments are consistent with amendments already made to certain Standards by AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*. The Exposure Draft will have a 60-day comment period and will be issued shortly.

The Board also decided to clarify the principles in the *AASB For-Profit Entity Standard-Setting Framework* and the *AASB Not-for-Profit Entity Standard-Setting Framework* that outline the approach followed by the Board when it considers whether to add to or amend disclosure requirements in AASB 1060 for amendments made by the IASB to full IFRS Standards (and therefore Tier 1 Standards). The amendments will clarify that these principles also apply to circumstances when the IASB makes disclosure-only amendments to IFRS Standards.



Audit Engagement-related Disclosures

Auditor tenure

The Board considered options for disclosing auditor tenure in response to recommendation 6 of the Parliamentary Joint Committee (PJC) Inquiry into the Regulation of Auditing in Australia, which recommended that the Financial Reporting Council (FRC), by the end of the 2020-21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. The Board acknowledged that the Australian Institute of Company Directors (AICD) is currently developing guidance for directors and audit committees that would encourage disclosure of auditor tenure in the Directors' Report. The Board also noted that the AICD intends to seek incorporation of the guidance into the ASX Corporate Governance Principles at a later date.

After considering the options available and the work undertaken by other bodies, the Board decided not to propose amendments to Australian Accounting Standards to require auditor tenure disclosure at this stage but to continue to monitor the work being carried out by the AICD in respect of listed entities.

Auditor remuneration

The Board decided at its February meeting to develop an Exposure Draft of amendments to AASB 1054 *Australian Additional Disclosures* to address PJC recommendation 3a, which recommended that the FRC and ASIC, by the end of the 2020-21 financial year, oversee consultation, development and introduction under Australian Standards of fee disclosure requirements for defined categories of audit and non-audit services.

At this meeting, the Board considered a comparison of audit and non-audit service categories recommended by AASB Research Report 15 *Review of Auditor Remuneration Disclosure Requirements* with those suggested by ASIC and those proposed in the Exposure Draft ED 03/21 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* issued by the Accounting Professional & Ethical Standards Board (APESB) in May 2021.

The Board acknowledged that ED 03/21 defines the services within each category, but noted that APES 110 provides guidance rather than mandatory requirements. The Board decided that AASB 1054 should define the services included in each category. The Board also decided to comment on the APESB ED and to liaise with the APESB in developing the disclosure proposals.



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The Board acknowledged that it is appropriate to wait for the government response to the PJC Inquiry recommendations before issuing its ED. However, in the interim, the Board will continue deliberating the proposals to amend AASB 1054.

AASB submission to the IASB Agenda Consultation

The Board redeliberated its decision at the April meeting to recommend the IASB add a project on audit engagement-related disclosures to its work program. After considering the progress of this project, the Board decided not to continue with that recommendation as the auditor tenure and auditor remuneration disclosures are to be addressed locally.

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.

In respect of the measurement of insurance liabilities, the Board decided to propose that there should be no public-sector-specific modifications to AASB 17 regarding:

- (a) the discounting of fulfilment cash flows; and
- (b) the requirements for presenting the impacts of inflation in the statement of profit or loss and other comprehensive income.

In respect of assessing eligibility for applying the premium allocation approach to measure the liability for remaining coverage, the Board decided to propose including the following public-sector-specific guidance in AASB 17 or the Board's Basis for Conclusions to AASB 17:

- (a) clarification that, when applying paragraph 34(b), assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the managerial capacity of its controlling government, including any relevant Ministers, to determine pricing or benefits;
- (b) clarification that, where a public sector entity has a legislated obligation to stand ready to insure future policyholders, that obligation would not affect the coverage period; and
- (c) guidance to assist a public sector entity to evaluate when it has the practical ability to fully price for risks or benefits under paragraph 34(b)(ii) when a long-term view is taken on setting pricing and benefits.

In relation to (c), the Board also decided to propose that a public sector entity would be required to disclose information about the manner in which long-run pricing is determined when that pricing takes into account risks relating to future coverage periods.



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IPSASB Exposure Drafts on Public Sector Measurement

The Board decided that, subject to feedback on AASB ITC 45, the scope of its submission on IPSASB Exposure Drafts ED 76 *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* and ED 77 *Measurement* should include its views on:

- (a) all aspects of the proposed current operational value measurement basis;
- (b) the IPSASB's rationale why fair value is inappropriate for measuring the current value of operational assets; and
- (c) the proposed removal of certain measurement bases from the IPSASB Conceptual Framework.

The Board also decided its submission should reflect the generally supportive feedback it received from the stakeholders on applying AASB 13 *Fair Value Measurement* in the Australian public sector, including noting the application issues deliberated by the Board in its Fair Value Measurement for Not-for-Profit Entities project.

The Board will continue its deliberations regarding the IPSASB Exposure Drafts at its August and September 2021 meetings.

AASB Agenda Consultation

The Board considered a draft of the forthcoming Invitation to Comment (ITC) *AASB Agenda Consultation 2022–2026*, including questions for stakeholder feedback on the suggested potential projects that could be added to the Board's work program.

The ITC is expected to be issued in September with a 180-day comment period.

IASB Agenda Consultation

The Board considered the feedback received from Australian stakeholders to date on the IASB's request for information (RFI) on the *Third Agenda Consultation*. Subject to further feedback on the Board's related Invitation to Comment (ITC 44), the Board decided that its submission to the IASB should provide the following views:

- (a) in respect of the strategic direction and balance of the IASB's activities, the IASB should increase its existing level of focus on digital financial reporting, which is broader than just the IFRS Taxonomy, and also consider how best to address the taxonomy work;
- (b) the IASB should increase its existing level of focus on the understandability and accessibility of Standards on the basis that recent research and feedback have identified issues with the readability and understandability of IFRS Standards;



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- (c) the IASB could decrease its existing focus on the development of new IFRS Standards and major amendments to IFRS Standards;
- (d) the IASB should retain the existing criteria used to assess the priority of financial reporting issues that could be added to its work plan;
- (e) projects related to intangible assets (medium-sized project) and going concern (large project) should be added to the IASB work plan as high priorities; and
- (f) projects related to climate-related risks (medium-sized project), the statement of cash flows (small project) and cryptocurrencies (medium-sized project) should be added to the IASB work plan as medium priorities, with the cryptocurrencies project focussing on amending the scope of the financial instrument Standards.

The Board will finalise the submission at the September Board meeting.

Income of Not-for-Profit Entities

The Board decided to add a narrow-scope project to its work program to consider implementation issues raised by not-for-profit sector stakeholders during targeted outreach regarding AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. The Board noted the short-term nature of the project and observed that several matters raised by the stakeholders will be considered through the post-implementation review of AASB 1058 that is expected to commence in 2022. The issues to be addressed in the project will be considered further at a future meeting.

Regulatory Assets and Liabilities

The Board discussed the proposals in IASB ED/2021/1 (AASB ED 307) *Regulatory Assets and Regulatory Liabilities* and the feedback received in outreach with stakeholders. The Board decided to prepare a submission to the IASB addressing in particular a number of areas in which further clarification would be useful, such as the effect of differences between regulatory balances and corresponding balances for financial reporting purposes under Standards.

Sustainability Reporting

Subject to their agreement, the Board decided to make a joint submission with the Financial Reporting Council and the Auditing and Assurance Standards Board on the IFRS Foundation Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Boards to set IFRS Sustainability Standards*. The submission will be finalised out of session by a subcommittee of the Board.

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Going Concern

The forthcoming AASB staff paper *Going Concern Disclosures: A Case for International Standard-Setting* will support the AASB's submission to the IASB Agenda Consultation recommending that a project related to going concern disclosures should be included on the IASB's revised work plan as a high priority. The Board noted that the staff paper should take an international perspective and focus on the long-standing issues related to reporting on going concern matters, rather than issues resulting from the specific economic impacts of COVID-19. The Board supported the addition of illustrative going concern disclosure examples. The staff paper is expected to be published in August 2021.

Business Combinations under Common Control

The Board noted the stakeholder feedback received to date on the IASB's proposals.

Research Update

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

- (a) planning and research projects for the 2021 AASB Academic Research Forum, to be held on Monday, 29 November;
- (b) publication in April of AASB Research Report 16 *Financial Reporting by Non-Corporate or Small Entities* (Public Sector Entities, Private Sector SMEs, Not-for-Profits including Charities and Non-Government Organisations); and
- (c) progress of the joint research with the Malaysian Accounting Standards Board on transitional arrangements and practical expedients that might be required or permitted in future Accounting Standards.

Recently Approved Documents

Since last reported (22 April 2021), 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)
5 May 2021	Fatal-Flaw Review Draft <i>Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors</i>	4 June 2021



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Date Approved	Document	Effective Date (Standards/Int'ns) or Due Date for Submissions (EDs)
11 May 2021	ITC 45 <i>Request for Comment on IPSASB Exposure Drafts ED 76 Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements and ED 77 Measurement</i>	3 August 2021
13 May 2021	ED 310 <i>Lack of Exchangeability</i>	23 July 2021
16 June 2021	ED 311 <i>Management Commentary</i>	1 October 2021
21 June 2021	AASB 2021-4 <i>Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors</i>	30 June 2021
22 June 2021	AASB 2021-5 <i>Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023

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	ED/2021/1 Regulatory Assets and Regulatory Liabilities	ED 307	closed	30 July 2021
IASB	Discussion Paper DP/2020/2 Business Combinations under Common Control	ITC 42	17 July 2021	1 September 2021
IASB	ED/2021/4 Lack of Exchangeability	ED 310	23 July 2021	1 September 2021
IPSASB	ED 76 Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Instruments	ITC 45	3 August 2021	25 October 2021
IPSASB	ED 77 Measurement	ITC 45	3 August 2021	25 October 2021
IASB	Request for Information Third Agenda Consultation	ITC 44	16 August 2021	27 September 2021
IASB	ED/2021/3 Disclosure Initiative—Targeted Standards-level Review of Disclosures	ED 309	16 August 2021	21 October 2021
IPSASB	ED 78 Property, Plant and Equipment	–	–	25 October 2021
IPSASB	ED 79 Non-current Assets Held for Sale and Discontinued Operations	–	–	25 October 2021



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Issuer	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	ED/2021/6 Revised Practice Statement on Management Commentary	ED 311	1 October 2021	23 November 2021

AASB 2021 Scheduled Board Meeting Dates

4 August
8-9 September
10-11 November

August 2021 AASB meeting

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

Not-for-Profit Private Sector Financial Reporting Framework
IPSASB Exposure Drafts on Public Sector Measurement
Business Combinations under Common Control