



# AASB Action Alert

From the Australian Accounting Standards Board

Issue No: 212  
28 February 2022

## Welcome to the AASB Action Alert

The AASB Board met in public via videoconference on 23 – 24 February 2022. At the meeting the Board made key decisions in relation to:

[Position Statement on Extended External Reporting \(ITC 48\)](#)

[Sustainability Reporting](#)

[Insurance Activities in the Public Sector](#)

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

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

[Extending Transition Relief under AASB 1](#)

The Board also discussed the following topics

[Accounting Policy Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities](#)

[Classification of Debt with Covenants as Current or Non-current](#)

[Supplier Finance Arrangements](#)

[Research Update](#)

[Agenda Consultation](#)

## Position Statement on Extended External Reporting (ITC 48)

The Board considered feedback on the draft Position Statement in Invitation to Comment ITC 48 *Extended External Reporting*, which proposed that the Board adopt an interim position to support the

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voluntary application of the recommendations of the Task Force on Climate-related Financial Disclosures. The Board decided to approve and publish the Position Statement on Extended External Reporting without amendment.

### Sustainability Reporting

The Board considered feedback on ITC 46 *AASB Agenda Consultation 2022–2026* regarding its proposed sustainability reporting project. The Board noted significant support for the Board to undertake a project on this topic and decided to add a project to its work program. The Board noted that the positioning of sustainability reporting requirements in the Australian reporting environment and clearly defining the scope of the work on sustainability reporting should be a priority when developing a draft project plan for future consideration.

The Board made the following preliminary decisions to assist staff in developing the draft project plan:

- (a) the work of the International Sustainability Standards Board (ISSB) should be used as the foundation, with modification for Australian matters and requirements. The Board further clarified that the focus for the project should be to prioritise international alignment and only amend (or add to) international sustainability reporting requirements where it is necessary to do so to meet the needs of Australian stakeholders;
- (b) in developing any modifications for Australian-specific circumstances, the Board noted the importance of leveraging off the work of existing sustainability reporting standard-setters and framework providers; and
- (c) the initial scope of the project relates to for-profit entities, with the draft project plan to address how to respond to feedback from for-profit entities of all sizes, not only larger listed entities. The Board decided to consider the not-for-profit sector at a later stage and asked staff to continue to engage with not-for-profit private and public sector entities in considering the initial project development.

The Board considered the preliminary work on the sustainability reporting due process and decided to apply its existing Due Process Framework for Setting Standards.

Staff will bring a draft project plan for the Board's consideration to a future Board meeting.

### Insurance Activities in the Public Sector

The Board decided to issue an Exposure Draft that proposes:

- (a) modifications to AASB 17 *Insurance Contracts* for application by public sector entities; and



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- (b) deferring the mandatory application date of AASB 17 for all public sector entities until annual reporting periods beginning on or after 1 July 2025, with early adoption permitted.

In approving the Exposure Draft, the Board considered the information gathered from stakeholder field testing of the proposed indicators for determining whether a public sector entity's arrangements would be within the scope of AASB 17.

The Board also decided to issue a Fatal-Flaw Review (FFR) draft version of a Standard proposing consequential amendments to various AASB pronouncements that would:

- (a) amend AASB pronouncements that refer to AASB 17, AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* to continue to apply AASB 4 and AASB 1023 to public sector entities for annual periods beginning on or after 1 January 2023 but before 1 July 2025; and
- (b) repeal AASB 1038 *Life Insurance Contracts* and supersede Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*, which are no longer needed for annual periods beginning on or after 1 January 2023 for either private sector or public sector entities.

The Exposure Draft and the FFR draft Standard are expected to be issued in March 2022 for a 90-day comment period.

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

After considering stakeholder comments received from targeted outreach in December 2021–January 2022, the Board decided to issue an Exposure Draft that will propose adding authoritative implementation guidance and illustrative examples to AASB 13 *Fair Value Measurement* for application by not-for-profit (NFP) public sector entities.

The proposed implementation guidance would, in respect of fair value measurement of non-financial assets not held primarily for their ability to generate net cash inflows:

- (a) clarify the circumstances in which an entity is permitted to use its own assumptions;
- (b) regarding the highest and best use of such an asset:
  - (i) clarify how the 'financially feasible use' concept in AASB 13 paragraph 28(c) should be applied; and
  - (ii) require that the presumption in AASB 13 paragraph 29 that the asset's current use is its highest and best use is rebutted when, and only when, the appropriate level of the entity's



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management is committed at the measurement date to a plan to locate a buyer of the asset or to use the asset for an alternative purpose;

- (c) when measuring the current replacement cost of such an asset (applying the cost approach), require an entity to:
- (i) assume that the asset will be replaced in its existing location, even if it would be feasible to replace the asset in a cheaper location;
  - (ii) adjust the estimated replacement cost of a reference asset for any differences between the current service capacity and standard of finish of the reference asset and the asset subject to measurement;
  - (iii) assume that the asset presently does not exist and all components of the asset need to be replaced. Therefore, all necessary costs intrinsically linked to acquiring or constructing the subject asset at the measurement date are included in the asset's current replacement cost;
  - (iv) exclude from the subject asset's current replacement cost any costs of restoring another entity's assets disrupted upon constructing the subject asset, if that entity is part of the same consolidated group as the holder of the subject asset; and
  - (v) not identify any surplus capacity of the asset that is necessary for stand-by or safety purposes as representing economic obsolescence.

The Board decided not to propose guidance for NFP public sector entities regarding whether to include borrowing costs in measuring the current replacement cost of such an asset.

The Board proposes that the authoritative implementation guidance would be required to be applied prospectively for annual periods beginning on or after 1 January 2024, with earlier application permitted.

The Exposure Draft is expected to be issued in March 2022 for a 90-day comment period.

### **Not-for-Profit Private Sector Financial Reporting Framework**

The Board decided to include the following proposals in the Discussion Paper (DP) on Tier 3 reporting requirements for not-for-profit (NFP) private sector entities.

#### *Investment property and property, plant and equipment*

Tier 3 reporting requirements should require:

- (a) separate classification, recognition and measurement requirements for investment property versus property, plant and equipment (PP&E);



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- (b) subsequent measurement for:
  - (i) investment property using either the cost model or the fair value model; and
  - (ii) PP&E using either the cost model or the revaluation model, with guidance to be developed for depreciation under the revaluation model; and
- (c) all borrowing costs to be recognised as an expense when incurred, which would be a simplification of the requirements in AASB 123 *Borrowing Costs*.

The Board observed that this approach would require a Tier 3 entity that elects to revalue its investment property or PP&E to measure fair value in accordance with AASB 13 *Fair Value Measurement*. However, the Board decided to seek stakeholder feedback through the DP on simplifications that should be considered for the revaluation of investment property and PP&E.

### *Employee benefits*

The Board decided that all short-term and long-term employee benefits should be measured on an undiscounted basis and presented as a single category under current liabilities in the statement of financial position. The Board decided that the measurement of employee benefits relating to long-service leave should still reflect the probability that payment will be required and to develop guidance in the form of a rebuttable presumption for the application of that requirement. The Board directed staff to conduct further research on the possible content and form of such guidance.

### *Income/revenue – grants, donations and bequests*

The Board decided to consider potential options for income accounting simplification for Tier 3 entities for inclusion in the DP and provided initial feedback to staff on the options for the accounting for grants, donations and bequests that should be considered further in developing proposals for the DP.

## **Extending Transition Relief under AASB 1**

The Board decided to proceed with the proposals in ED 315 *Extending Transition Relief under AASB 1*, with only minimal changes.

The amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 1053 *Application of Tiers of Australian Accounting Standards* will assist entities with the first-time preparation of general purpose financial statements (GPFS) in some circumstances by:

- (a) allowing for-profit and not-for-profit subsidiaries preparing GPFS for the first time to apply the optional exemption in AASB 1 paragraph D16(a) and measure their assets and liabilities at the



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- carrying amounts that would be included in the parent's consolidated financial statements where the parent has already adopted either Australian Accounting Standards or IFRS Standards; and
- (b) clarifying that for-profit private sector entities transitioning from unconsolidated Tier 2 – Reduced Disclosure Requirements GPFS to consolidated Tier 2 – Simplified Disclosures GPFS can apply AASB 1 when preparing consolidated financial statements for the first time.

In finalising its views, the Board also decided to amend AASB 1 paragraph D17 to allow a parent that becomes a first-time adopter of Australian Accounting Standards in its consolidated financial statements later than its subsidiary to use the amounts included in the subsidiary's separate financial statements where the subsidiary has already adopted either Australian Accounting Standards or IFRS Standards.

An amending Standard, with an effective date of annual periods ending on or after 30 June 2022, is expected to be issued in April 2022.

### **Accounting Policy Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities**

The Board confirmed its previous decision to proceed with the proposals in ED 302 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* with some changes.

The amendments to AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards* are relevant to for-profit private sector entities that are required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards.

When such entities prepare special purpose financial statements (SPFS) that refer to Australian Accounting Standards, the amendments will require the financial statements to include disclosures that inform users of the basis upon which they were prepared. This includes disclosing information about the material accounting policies applied in the SPFS and the extent of compliance or otherwise of those accounting policies with the recognition, measurement, consolidation and equity accounting requirements in Australian Accounting Standards.

An amending Standard, with an effective date of annual periods ending on or after 30 June 2022, is expected to be issued in May 2022.



## Classification of Debt with Covenants as Current or Non-current

The Board deliberated its response to the IASB Exposure Draft ED/2021/9 *Non-current Liabilities with Covenants* (AASB ED 316). The Board decided that its submission would support the proposed clarification that conditions with which an entity must comply within twelve months after the reporting date have no effect on whether the entity has, at the end of the reporting period, a right to defer settlement of a liability for at least twelve months after the reporting period.

The Board also decided to support the proposals in the ED on disclosure requirements, clarification of circumstances where entities do not have the right to defer settlement for at least twelve months after the reporting date and further deferral of the effective date of the IFRS amendments *Classification of Liabilities as Current or Non-current* (these amendments were made by the Board through AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*).

However, the Board decided to include the following comments and suggestions for consideration by the IASB:

- (a) the IASB should consider whether the principles underlying the proposals in the ED are consistent with the IASB's Primary Financial Statements project, the Management Commentary project and IFRS 7 *Financial Instruments: Disclosures* and ensure that duplicative requirements are avoided;
- (b) develop additional guidance concerning aggregation criteria to help entities with the identification of similar economic characteristics for specified conditions when disclosing the conditions;
- (c) require entities to disclose whether and how an entity expects to comply with the conditions after the end of the reporting period only if the entity would not have complied with the specified conditions based on its circumstances at the end of the reporting period;
- (d) whether the proposed disclosure requirement regarding whether and how an entity expects to comply with the conditions after the end of the reporting period should be subject to an "undue cost" or similar proviso; and
- (e) clarify the requirement regarding uncertain future events (paragraph 72C(b)) and develop application guidance.

The Board disagreed with the proposals in the ED to:

- (a) require an entity to present separately in its statement of financial position non-current liabilities that are subject to compliance with specified conditions within twelve months after the reporting period. The Board suggests that note disclosure would be sufficient; and

- (b) require an entity to apply the amendments retrospectively. Instead, the Board suggests that prospective application would be appropriate.

### **Supplier Finance Arrangements**

The Board deliberated its response to the IASB Exposure Draft ED/2021/10 *Supplier Finance Arrangements* (AASB ED 317). The ED proposes narrow-scope amendments to improve the disclosure of supplier finance arrangements under IAS 7 *Statement of Cash Flows* and the guidance in IFRS 7 *Financial Instruments: Disclosures*. Overall, the Board decided to support the proposals with some recommendations.

Whilst the Board agrees with identifying the scope of supplier finance arrangements by description rather than a prescriptive definition, it suggests amending the proposed description to clarify that such arrangements are characterised by an entity entering into an arrangement with one or more third-party finance providers or an intermediary.

The Board considered the proposed requirement for entities to disclose the carrying amount of financial liabilities for which suppliers have already received payment under supplier finance arrangements and decided to suggest that the IASB consider requiring entities to disclose a reconciliation of the movements between their opening and closing financed amounts instead. The Board also suggests referring to disclosure of payment terms rather than payment due dates.

The Board agrees with the proposal that supplier finance arrangements should be added as an example within the requirements of IFRS 7 to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk. The Board also suggests requiring disclosure of material payments under supplier finance arrangements that are financing cash outflows either as a separate line item in the statement of cash flows or in the notes.

### **Research Update**

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

- (a) staff presented on the draft staff paper on *Intangible Assets: Reducing the Financial Statements Gap Through Improved Disclosures* and progress made in joint research with the Malaysian Accounting Standards Board on transition requirements and practical expedients under IFRS 16 *Leases* at the 13th Asian-Oceanian Standard-Setters Group annual meeting in November 2021;
- (b) planning for the inaugural 2022 AASB Dialogue Series, which is to commence in March 2022;





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- (c) launching the AASB Working Paper Series in April 2022, to be hosted on the Social Science Research Network (SSRN) website, a new initiative to encourage researchers to work on research projects relevant to AASB work; and
- (d) planning the 2022 AASB Research Forum, to be held on Monday, 5 December 2022.

### Agenda Consultation

The Board noted submissions and other feedback received in response to ITC 46 *AASB Agenda Consultation 2022–2026* and a roundtable conducted in February 2022. Staff plan to provide a summary of the feedback received to the Board at the May 2022 meeting.

### Recently Approved Documents

Since last reported (15 November 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) |
|------------------|--|---|
| 25 November 2021 | ED 315 <i>Extending Transition Relief under AASB 1</i>   | Closed  |
| 2 December 2021  | ED 316 <i>Non-current Liabilities with Covenants</i>   | Closed  |
| 2 December 2021  | ED 317 <i>Supplier Finance Arrangements</i>  | Closed  |
| 8 December 2021  | AASB 2021-6 <i>Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards</i> | 1 January 2023  |
| 20 December 2021 | AASB 2021-7 <i>Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections</i>      | 1 January 2022<br>(and 1 January 2023 for AASB 17 corrections)      |
| 24 January 2022  | ED 318 <i>Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases</i>                   | 11 March 2022   |

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### 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 |
|---------|---|------------------------|---------------|-----------------------------|
| AASB    | ED 318 <a href="#">Illustrative Examples for Income of Not-for-Profit Entities and Right-of-Use Assets arising under Concessionary Leases</a> | <a href="#">ED 318</a> | 11 March 2022 | –                           |
| IASB    | ED/2021/9 <a href="#">Non-current Liabilities with Covenants</a>  | <a href="#">ED 316</a> | Closed        | 21 March 2022               |
| IASB    | ED/2021/10 <a href="#">Supplier Finance Arrangements</a>  | <a href="#">ED 317</a> | Closed        | 28 March 2022               |
| IFRS IC | Tentative Agenda Decision <a href="#">Negative Low Emission Vehicle Credits</a>   | –                      | –             | 12 April 2022               |
| IPSASB  | ED 81 <a href="#">Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements</a>     | –                      | –             | 31 May 2022                 |

#### AASB 2022 Scheduled Board Meeting Dates

7 April  
18 May  
22-23 June  
3 August  
21-22 September  
3 November  
14-15 December

#### April 2022 AASB meeting

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

Not-for-Profit Private Sector Financial Reporting Framework  
Income of Not-for-Profit Entities – Narrow-scope Amendments  
Sustainability Reporting