AADP 305

ACT ACCOUNTING DISCLOSURE PAPER

ON

TREATMENT OF AASB STANDARDS ISSUED WHICH ARE NOT YET EFFECTIVE AS AT 30 JUNE 2021

FOR THE REPORTING PERIOD ENDED 30 JUNE 2021

Chief Minister, Treasury and Economic
Development Directorate

Updated Policy start date: June 2021

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1. INTRODUCTION

1.1 APPLICATION

1.1.1 Background

This policy applies to ACT Government Agencies, that is, directorates and territory authorities. It covers Australian Accounting Standards and Interpretations which have been issued as at June 2021 that are yet to be applied. These standards and interpretations will apply during reporting periods later than 2020-21.

1.1.2 Agencies Covered by this Policy

This guidance paper applies to ACT Government Agencies, that is directorates and territory authorities.

1.1.3 Contact

If you have any questions regarding this Policy, please do not hesitate to contact the Financial Reporting and Framework (FRF) Branch to provide further clarification. Contact details are listed on the website: https://apps.treasury.act.gov.au/accounting/.

1.1.4 Update to this Policy Paper

The Financial Reporting and Framework (FRF) Branch will provide an update to this paper in July where new standards are issued in June 2021. However, additional standards may be issued which are not yet applicable between 30 June 2021 and the date of signing of the financial statements and therefore these standards may need to be included in an agency's financial statements. As such, agencies should monitor for any further standards issued after the FRF Branch releases the July paper until their financial statements are signed. If there are any further standards issued during this time, agencies need to assess each standard issued but not yet applicable and disclose these standards in Appendix C of their financial statements if they are relevant and if their adoption is likely to have a material financial impact or their financial impact cannot yet be assessed.

2. TREATMENT OF AASB STANDARDS ISSUED BUT YET TO BE APPLIED

2.1 DISCLOSURES REQUIRED FOR STANDARDS ISSUED BUT YET TO BE APPLIED

When a directorate or territory authority has not early adopted a new accounting standard, and the standard is mandatorily effective in a later reporting period, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of details regarding the adoption of that standard. This includes the potential financial impact on the financial statements which may occur when the standard is applied. AASB 108 para 30 and 31 contain the disclosure requirements.

This policy paper has been developed to assist agencies in making these disclosures. It provides an indication of what changes have been included in standards which have been issued but are yet to be applied. This will assist agencies in identifying which of the standards may have a potential material financial impact on them when they are applied.

Agencies are required to:

1. **Identify those standards that will apply to their agency;**
2. **Assess whether there may be a material[1] financial impact upon the agency by reviewing the changes listed in this policy and referring directly to the standards and/or interpretations (this assessment should be clearly documented in audit work papers);**
3. **Only disclose details of the standards and interpretations which apply and are assessed as having a material financial impact on them, or if the impact is not known or reasonably estimable in the format as presented in Attachment A. If the impact is not known or cannot be reasonably estimated, then this should be documented along with the reason why this is the case. It is important to note that it is not sufficient for an agency to state that the impact isn't known because an assessment hasn't been undertaken yet. There needs to be a valid reason for why the agency hasn't been able to perform the assessment; and**
4. **Not disclose details of the standards and interpretations which either do not apply or which apply but are assessed as not having a material impact on them.**

Agencies should refer to Section 3 and **Attachment A** of this Policy Paper which provide the disclosure guidance agencies need to be aware of when preparing their 2020-21 Financial Statements, particularly given there was no 2020-21 Model Financial Statements issued.

It is important for each agency to verify that this assessment is correct for their circumstances.

3. SUMMARIES OF CHANGES TO STANDARDS AND INTERPRETATIONS ISSUED BUT YET TO BE APPLIED

The below are all standards and interpretations, currently issued by the AASB, which apply to reporting periods beginning on or after 1 July 2021 include:

AASB 17 *Insurance Contracts;*

AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities;*

AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture (Appl. 1 January 2022);*

AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current;*

AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities;*

AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and other Amendments;*

AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts;*

[1] There is a revised definition of materiality in AASB 101 para 7 which applies to the 2020-21 financial year for the first time.

AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date;*

AASB 2020-7 *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures;*

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2;*

AASB 2020-9 *Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments;*

AASB 2021-1 *Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities;*

AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates;* and

AASB 2021-3 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions beyond 30 June 2021.*

3.1 RELEVANT STANDARDS THAT ARE CONSIDER NOT TO HAVE A MATERIAL FINANCIAL IMPACT ON MOST AGENCIES

The following standards are considered relevant to most ACT Government agencies, however it is considered that they will not have a material financial impact on most ACT Government agencies.

3.1.1 AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current (originally appl. 1 January 2022 however now appl. 1 January 2023 due to issue of AASB 2020-6)

Background

AASB 2020-1 amends AASB 101 *Presentation of Financial Statements* to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It applies to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, the AASB has recently issued AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date* which defers the application date by one year to periods beginning on or after 1 January 2023.

The amendments outlined in this standard clarify that a liability is classified as non-current if, at the end of the reporting period, an agency has the right to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified in these amendments.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.2 AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments (appl. 1 January 2022)

Background

AASB 2020-3 amends:

- AASB 1 *First-time adoption of Australian Accounting Standards* to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;
- AASB 3 *Business Combinations* to update a reference to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations;
- AASB 9 *Financial Instruments* to clarify the fees an agency includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;
- AASB 116 *Property, Plant and Equipment* to require an agency to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset;
- AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to specify the costs that an agency includes when assessing whether a contract will be loss-making; and
- AASB 141 *Agriculture* to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.3 AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date (appl. 1 January 2022)

Background

AASB 2020-6 amends AASB 101 *Presentation of Financial Statements* to defer requirements for the presentation of liabilities in the statement of financial position as current or non-current that were added to AASB 101 in AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (March 2020)*. Those requirements will now be compulsory for annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022, with earlier application permitted.

Impact

This standard defers the application of AASB 2020-1 by one financial year, and as such will not have a material financial impact on directorates and territories authorities.

3.1.4 AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

Background

This Standard amends:

- AASB 7 *Financial Instruments: Disclosures* to clarify that information about measurement bases for financial instruments is expected to be material to an agency's financial statements;
- AASB 101 *Presentation of Financial Statements* to require agencies to disclose their material accounting policy information rather than their significant accounting policies;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify how agencies should distinguish changes in accounting policies and changes in accounting estimates;
- AASB 134 *Interim Financial Reporting* to identify material accounting policy information as a component of a complete set of financial statements; and
- AASB Practice Statement 2 *Making Materiality Judgements* to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Impact

This standard is not expected to have a material financial impact on most directorates and territory authorities.

3.1.5 AASB 2021-3 Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions beyond 30 June 2021

Background

AASB 2021-3 extends the application date by one year of the practical expediency added to AASB 16 *Leases* by AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions*. The practical expedient permits lessees not to assess whether rent concessions occurring from the covid-19 pandemic and which meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. This Standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Impact

This standard defers the application of AASB 2020-4 by one financial year, and as such, will not of itself have a material financial impact on directorates and territory authorities. Directorates and territory authorities should have made an assessment of the financial impact of AASB 2020-4. For a summary of AASB 2020-4 please see the ACT Accounting Policy Paper on 2019-20 Standards Released Which are not Yet Effective as at 30 June 2020.

3.2 STANDARDS THAT ARE NOT CONSIDERED APPLICABLE TO MOST AGENCIES

It is considered that the following Standards do not apply to most ACT Government agencies.

3.2.1 AASB 17 Insurance Contracts (originally appl. 1 January 2021 however now appl. 1 January 2023 due to issue of *AASB* 2020-5)

Background

AASB 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that agencies provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the financial position, financial performance and cash flows of the agency. AASB 17 reflects the view that an insurance contract combines features of both a financial instrument and a service contract.

AASB 17 does not apply to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit public sector agencies. The AASB is assessing the applicability of AASB 17 to not-for-profit public sector agencies. In November 2017, the AASB issued Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*.

Impact

AASB 17 will not apply to directorates and territory authorities.

3.2.2 AASB 1060 General Purpose Financial Statements – Simplified Disclosure for for-Profit and Not-For-Profit Tier 2 Entities (appl. 1 July 2021)

Background

AASB 1060 sets out a new, separate disclosure standard to be applied by all agencies that are reporting under Tier 2 of the Differential Framework in AASB 1053 *Application of Tiers of Australian Accounting Standards*. AASB 1060 has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting user needs, to replace the current Reduced Disclosure Requirements framework. The methodology and principles applied are outlined in the Basis for Conclusions to AASB 1060.

AASB 1060 does not change:

- which agencies are permitted to apply Tier 2 reporting requirements; and
- the recognition and measurement requirements of Tier 2, which are the same as for Tier 1.

The disclosures that are relevant to Tier 2 entities are set out in AASB 1060. Disclosure requirements set out in the body or appendix of other Standards will no longer be shaded or unshaded in relation to Tier 2 requirements. While agencies that comply with this Standard need to apply the recognition and measurement requirements in other Standards, they are exempt from the presentation and disclosure requirements in other Standards. Consequential amendments to the relevant Standards are set out in Appendix C to AASB 1060. While this Standard includes certain presentation requirements, these do not result in presentations or classifications that are different to those required for Tier 1 agencies. The only exception is the option not to include a separate statement of changes in equity in certain circumstances, as set out in paragraph 26 of the Standard.

Impact

It is ACT Disclosure Policy that agencies that are consolidated into the Whole-of-Government financial statements are not allowed to adopt Tier 2 reporting. As a result, this standard will not apply to directorates and territory authorities.

3.2.3 AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and *i*ts Associate or Joint Venture (Appl. 1 January 2022)

Background

AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:

- a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and
- a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

AASB 2017-5 *Amendments to Australian Accounting Standards – Effective date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* deferred the mandatory effective date (application date) of amendments to AASB 10 and AASB 128 made in AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2022.

Impact

Directorates and territory authorities do not generally have any investments in subsidiaries, joint ventures and associates and as such this standard will not apply to most agencies. Directorates and territory authorities that do have investments in subsidiaries, joint ventures and associates will need to assess the impacts of this standard.

3.2.4 AASB 2020-2 Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities (appl. 1 July 2021)

Background

AASB 2020-2 makes consequential amendments to several Australian Accounting Standards to specify certain for-profit private sector entities who will no longer be able to prepare special purpose financial statements.

Impact

This standard does not apply to directorates and territory authorities.

3.2.5 AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts (appl. 1 January 2021)

Background

AASB 2020-5 amends AASB 4 *Insurance Contracts* and AASB 17 *Insurance Contracts.* The amendments to AASB 4 permit eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17.

AASB 2020-5 amends AASB 17 to:

- reduce the costs of applying AASB 17 by simplifying some of its requirements;
- make an agency's financial performance relating to insurance contracts easier to explain; and
- ease the transition to AASB 17 by deferring its effective date to annual periods beginning on or after 1 January 2023 instead of 1 January 2021 and by providing additional optional relief to reduce the complexity in applying AASB 17 for the first time.

Impact

This standard will not apply to most directorates and territory authorities.

3.2.6 AASB 2020-7 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions: Tier 2 Disclosures (appl. 1 July 2021)

Background

AASB 2020-7 adds new disclosure requirements to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (paragraph 146A) that:

- require agencies reporting under the Tier 2 – Simplified Disclosures framework that have applied the practical expedient for COVID-19-related rent concessions in AASB 16 *Leases* to make the same disclosures as required under AASB 16 paragraph 60A;
- exempt these agencies from having to comply directly with AASB 16 paragraph 60A; and
- provide relief for these agencies from complying with AASB 1060 paragraph 106(b), being the equivalent paragraph to AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 28(f).

Impact

It is ACT Government Disclosure Policy that agencies which are consolidated into the Whole-of-Government financial statements are not allowed to adopt Tier 2 reporting. As a result, this standard will not apply to directorates and territory authorities.

3.2.7 AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2 (appl. 1 January 2021)

Background

AASB 2020-8 helps agencies provide financial statement users with useful information about the effects of the interest rate benchmark reform on those agencies' financial statements. As a result of these amendments, an agency:

- will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

Impact

This standard will not apply to most directorates and territory authorities.

3.2.8 AASB 2020-9 Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments (appl. 1 July 2021)

Background

AASB 2020-9 provides relief for agencies reporting under the Tier 2 – Simplified Disclosures framework from disclosing the financial effects of their initial application of the amendments in AASB 2020-8.

AASB 2020-9 also makes various editorial corrections to AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Impact

It is ACT Government Disclosure Policy that agencies which are consolidated into the Whole of Government financial statements are not allowed to adopt Tier 2 reporting. As a result, this standard will not apply to directorates and territory authorities.

3.2.9 AASB 2021-1 Amendments to Australian Accounting Standards – Transition to Tier 2: Simplified Disclosures for Not-for-Profit Entities

Background

AASB 2021-1 amends AASB 1060 to provide not-for-profit entities with optional relief from presenting comparative information in the notes to the financial statements where an agency did not disclose the comparable information in its prior financial statements. This optional relief relates to certain circumstances where an agency does not have to present comparative information in the notes to the financial statements when transitioning from either:

- Tier 1: Australian Accounting Standards **or** Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements; **to**
- Tier 2: Australian Accounting Standards – Simplified Disclosures.

This relief is available to not-for-profit entities for a reporting period prior to the agency's mandatory application of AASB 1060.

Impact

It is ACT Government Disclosure Policy that agencies which are consolidated into the Whole-of-Government financial statements are not allowed to adopt Tier 2 reporting. As a result, this standard will not apply to directorates and territory authorities.

3.2.10 AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (appl. 1 January 2023)

Background

This Standard amends AASB 112 to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may be the case for transactions such as leases and decommissioning, restoration and similar obligations. Entities are required to recognise deferred tax on such transactions.

The Standard amends AASB 1 to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exemption set out in AASB 112.

Impact

Directorates and territory authorities do not generally have any deferred tax on transactions and as such this standard will not apply to most agencies. Directorates and territory authorities that do have deferred tax on transactions will need to assess the impacts of this standard.

ATTACHMENT A – 2020-21 MODEL FINANCIAL STATEMENT DISCLOSURES FOR STANDARDS ISSUED BUT YET TO BE APPLIED

Background

Given that none of the standards issued but yet to be applied will impact most directorates and territory authorities, these agencies can use the below 'Impact of Accounting Standards Issued but yet to be Applied' example disclosure (highlighted in blue) in their 2020-21 financial statements. **Please note – where there is one or more of these standards that do apply to an agency and have a material financial impact or where the impact on the agency has not yet been assessed the example disclsoure must be tailored to include the detail of the standards that are applicable to that agency.**

The disclosure below is applicable to 'Example Agency'. A complete list of standards for the consideration of each agency can be found in Section 3 of this paper, and each of these standards and interpretations are also discussed in Section 3.

EXAMPLE DISCLOSURE

(Disclosure in Blue and Commentary in Grey)

Appendix C – Impact of Accounting Standards Issued But Yet to Be Applied

The information below applies to both the Controlled and Territorial financial statements.

IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

All Australian Accounting Standards and Interpretations issued but yet to be applied are either not relevant to 'Example Agency' or have been assessed as having an immaterial financial impact on 'Example Agency'.

These standards and interpretations are applicable to future reporting periods. 'Example Agency' does not intend to adopt these standards and interpretations early. Where applicable, these Australian Accounting Standards will be adopted from their application date.

APPENDIX C – COMMENTARY

The above example disclosure and this associated commentary is to assist agencies to make the necessary disclosures in their financial statements. Agencies should make their own assessment on the impact and relevance of the standards, bearing in mind that they should only disclose those standards and amending standards that are expected to have a material impact on them or where they have not yet assessed their impact.

There are no ‘Standards Issued but Yet to be Applied’ listed in the disclosure above, as it is considered that none of these standards will be applicable to most agencies, or if applicable, will not have a material financial effect. These standards have not been disclosed because agencies do not have to include standards that would never apply to them (e.g. AASB 129 *Financial Reporting in Hyperinflationary Economies*) or that do not have a material financial impact on them. As such, most agencies will be able to simply use the disclosure wording included in the blue section above in their own financial statements.

It is recommended that agencies review all the standards issued but yet to be applied to ensure these standards do not apply to them or they do not have a material financial impact.

Chief Minister, Treasury and Economic Development Directorate

June 2021 updated