# New Australian Accounting Pronouncements

## For 30 June 2023 Year-end reports

### New and changed requirements

This publication provides an overview of the accounting pronouncements issued *as of 30 June 2023*, covering those that:

- **Must** be applied for the first time for 30 June 2023 year-ends
- **May** be applied early for 30 June 2023 year-ends

Implementing new accounting standards often impacts entities beyond their financial reporting functions. This publication is intended to:

- Support better conversations about accounting changes with your stakeholders
- Help you respond in a timely manner to all accounting changes in your next financial report
- Keep you focused on future changes in financial reporting and their impact on your implementation efforts

### Accounting change disclosures

Financial reports are required to:

- Present the impact of the initial application of new accounting standards applied
- Disclose the possible impact of the initial application of forthcoming accounting standards not yet applied, or otherwise indicate the reason for not doing so

However, Tier 2 entities, being those applying simplified disclosures, are not required to disclose the possible impact of accounting pronouncements issued but not yet effective.

### Remain alert to further changes

This publication is updated as of 30 June 2023. Any pronouncements issued after this date (up until the date of authorisation of your financial report) must also be considered. Refer to Focus On Reporting newsletters to stay informed of further changes.

# Contents

## Financial instruments

### AASB 2020-3 Amendment to AASB 9 – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Part of Annual Improvements 2018–2020 Cycle)

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 9 *Financial Instruments*, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, as measured by the '10 per cent' test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability.

The amendment to AASB 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by either on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.

For example, valuation and legal fees paid by the borrower to third-party consultants, will not be included in the 10 per cent test. However, if the modification is not determined to be an extinguishment, such costs would be capitalised and subsequently amortised with a revision to the effective interest rate.

These amendments are applied prospectively. Earlier application is permitted.

## Group accounts

### AASB 2014-10 Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Effective for annual reporting periods beginning on or after 1 January 2025[1]

The amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

These amendments are applied prospectively. Earlier application is permitted.

1 AASB 2021-7 Amendments to AASs – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections deferred the effective date of AASB 2014-10 to annual reporting periods beginning on or after 1 January 2025.

## Income taxes

### AASB 2021-5 Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Effective for annual reporting periods beginning on or after 1 January 2023

AASB 112 *Income Taxes* requires entities to account for income tax consequences when economic transactions take place, rather than when income tax payments or recoveries are made. Accounting for such tax consequences, means entities need to consider the differences between tax rules and accounting standards. These differences could either be:

- Permanent – e.g., when tax rules do not allow a certain expense to **ever** be deducted

  Or

- Temporary – e.g., when tax rules treat an item of income as taxable in **a period later than** when included in the accounting profit

Deferred taxes representing amounts of income tax payable or recoverable in the future must be recognised on temporary differences unless specifically prohibited by AASB 112. One of these circumstances, known as the initial recognition exception, applies when a transaction affects neither accounting profit nor taxable profit, and is not a business combination. Views differed about applying this exception to transactions that, on initial recognition, create both an asset and liability (and could give rise to equal amounts of taxable and deductible temporary differences) such as:

- Recognising a right-of-use asset and a lease liability when commencing a lease
- Recognising decommissioning, restoration and similar liabilities with corresponding amounts included in the cost of the related asset

Some entities have previously recognised deferred tax consequences for these types of transactions, having concluded that they did not qualify for the initial recognition exception. The amendments to AASB 112 clarify that the exception would not normally apply. That is, the scope of this exception has been narrowed such that it no longer applies to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The amendments apply from the beginning of the earliest comparative period presented to:

- All transactions occurring on or after that date
- Deferred tax balances, arising from leases and decommissioning, restoration and similar liabilities, existing at that date

The cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

Earlier application of the amendments is permitted.

**Resource**

*IFRS Developments Issue 191: IASB clarifies deferred tax accounting for leases and decommissioning obligations (May 2021)*

## Income taxes

### AASB 2023-2 Amendments to AASs – International Tax Reform Pillar Two Model Rules

Effective for annual reporting periods beginning on or after 1 January 2023[2]

In response to the Pillar Two Global anti-Base Erosion rules (GloBE Rules)[3] , amendments to AASB 112 introduce:

- A mandatory temporary exception in AASB 112 from recognising and disclosing deferred tax assets and liabilities related to Pillar Two income taxes
- Disclosure requirements for affected entities for the periods before and when the legislation is effective

The amendments are intended to provide temporary relief, avoid diverse interpretations of AASB 12 developing in practice and improve the information provided to users of financial statements before and after Pillar Two legislation comes into effect.

The amendments do not clarify whether a Pillar Two top-up tax is considered to be an income tax in the scope of AASB 12, nor do they require all top-up taxes to be treated as income taxes. Judgement must be applied in determining which top-up taxes are considered to be income taxes.

Earlier application of the amendments is permitted.

**Resources**

*IFRS Developments Issue 203: OECD BEPS Pillar 2 - Global anti-Base Erosion Rules: Accounting issues (July 2022)*

*IFRS Developments Issue 218: Amendments to IAS 12: International Tax Reform Pillar Two Model Rules (May 2023)*

[2] The exception applies retrospectively and immediately. The disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023 and are not required for interim reporting periods ending on or before 31 December 2023.

[3] Proposed by the Organisation for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)

## Insurance contracts

### AASB 17 Insurance Contracts

Effective for annual reporting periods beginning on or after 1 January 2023[4]

AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for for-profit entities. AASB 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation features.

In contrast to the requirements in AASB 4, which are largely based on grandfathering previous local accounting policies, AASB 17 provides a comprehensive accounting model for insurance contracts. The core of AASB 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- The concept of a Contractual Service Margin (CSM), representing the unearned profit on the insurance contracts to be recognised in profit or loss over the service period
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining service period
- The effect of changes in discount rates are reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet

Entities are required to adopt AASB 17 using the full retrospective approach, however, if this is impracticable for a group of insurance contracts, either the modified retrospective approach or fair value approach may be used.

Earlier application is permitted, provided that the entity also applies AASB 9 on or before the date it first applies AASB 17.

AASB 17 does not apply to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit (NFP) public sector entities.[5]

[4] AASB 2020-5 Amendments to AASs – Insurance Contracts deferred the effective date of AASB 17 by two years to annual reporting periods beginning on or after 1 January 2023.

[5] However, the AASB has issued ED 319 *Insurance Contracts in the Public Sector* which proposes to defer the effective date

## Insurance contracts

**Resource**

*Applying IFRS 17: A closer look at the new Insurance Contracts Standard (June 2021)*

*Insurance Accounting Alert (February 2022)*

### AASB 2022-1 Amendments to AASs – Initial Application of AASB 17 and AASB 9 – Comparative Information

Effective for annual reporting periods beginning on or after 1 January 2023

When insurers apply AASB 17 and AASB 9 for the first time in 2023, AASB 17 requires restatement of comparatives. However, under AASB 9, insurers may restate the comparatives only when hindsight is not required but cannot restate for financial assets derecognised before the application date of AASB 9. The accounting mismatch caused by financial assets derecognised during the comparative period is potentially significant and could make financial statements more difficult to understand.

The AASB amended AASB 17 to add a transition option 'classification overlay'. The overlay addresses the above accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on the initial application of AASB 17.

If an entity elects to apply the classification overlay, it can only do so for comparative periods to which it applies AASB 17 (i.e., from the transition date to the date of initial application of AASB 17). An entity that applies the classification overlay to a financial asset should:

- Use reasonable and supportable information available at the transition date to determine how the entity expects a financial asset would be classified and measured on initial application of AASB 9 (for example, using preliminary assessments performed to prepare for initial application of AASB 9)
- Present comparative information as if the classification and measurement requirements of AASB 9 had been applied to that financial asset

**Resource**

*Insurance Accounting Alert (December 2021)*

### AASB 2022-9 Amendments to AASs – Insurance Contracts in the Public Sector

Effective for annual reporting periods beginning on or after 1 July 2026

The amendment provides the following modifications to AASB 17 for application by public sector entities:

- Added pre-requisites, indicators and other considerations that need to be judged to identify arrangements that fall within the scope of AASB 17 in a public sector context
- An exemption from sub-grouping onerous vs. non-onerous contracts at initial recognition
- An exemption from sub-grouping contracts issued no more than a year apart
- An amendment to the initial recognition requirements so that they do not depend on when contracts become onerous

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of AASB 17 for public sector entities to 1 July 2025. It also proposes several modifications to AASB 17 for public-sector entities in areas such as sub-grouping of insurance contracts, initial recognition, coverage period, scoping and the cash flows within the contract boundary.

## Insurance contracts

- Guidance on coverage period in a public sector context, which has consequences for determining the cash flows used to measure insurance liabilities and the pattern of revenue recognition
- An accounting policy choice to measure liabilities for remaining coverage applying the premium allocation approach
- A transition requirement grandfathering the existing classification of liabilities for the settlement of claims incurred before the liability was acquired in a transfer, as either a liability for incurred claims within the scope of AASB 17 or a provision in the scope of AASB 137

Earlier application of the amendment is permitted.

## Leases

### AASB 2022-5 Amendments to AASs – Lease Liability in a Sale and Leaseback

Effective for annual reporting periods beginning on or after 1 January 2024

In a sale and leaseback transaction recognised as a sale under AASB 15 *Revenue from Contracts with Customers*, AASB 16 requires the seller-lessee to measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. The standard, however, does not specify how the liability arising in a sale and leaseback is measured. This impacts the measurement of the right-of-use asset and could result in recognition of a gain or loss on the right-of-use asset retained. Of particular concern is the impact of excluding from the lease liability, variable lease payments that do not depend on an index or rate.

The issue has been addressed in the amendment, which specifies that the seller-lessee measures the lease liability arising from the leaseback in such a way that they would not recognise any gain or loss on the sale and leaseback relating to the right-of-use asset retained.

The amendment does not prescribe specific measurement requirements for the lease liability arising from a leaseback. The seller-lessee will need to establish an accounting policy that results in information that is relevant and reliable in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The amendment, however, includes examples illustrating the initial and subsequent measurement of the lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The amendment may represent a significant change in accounting policy for entities that enter into sale and leaseback transactions with such variable payments.

The amendment to AASB 16 is applied retrospectively to sale and leaseback transactions entered into after the beginning of the annual reporting period in which an entity first applied AASB 16. Earlier application of the amendment is permitted.

**Resource**

*IFRS Developments Issue 206: IASB amends IFRS 16 for lease liability measurement in a sale and leaseback transaction (September 2022)*

## First-time adoption of AAS

### AASB 2020-3 Amendment to AASB 1 – Subsidiary as a First-time Adopter (Part of Annual Improvements 2018–2020 Cycle)

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, an entity is required to determine its own functional currency, being the currency of the primary economic environment in which it operates. Where a group contains individual entities with different functional currencies, the group's consolidated financial statements are presented in a common currency through a translation process prescribed by AASB 121. Exchange differences arising from translating the results and financial position of the individual entities or foreign operations[6], commonly known as 'cumulative translation differences', are accumulated in a separate component of equity.

A subsidiary that adopts Australian Accounting Standards **later** than its parent is required to measure cumulative translation differences at its date of transition to Australian Accounting Standards either at zero or on a retrospective basis under AASB 1. Consequently, the subsidiary might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to Australian Accounting Standards.

Acknowledging that some entities find this requirement burdensome, the AASB simplified the application of AASB 1, permitting a subsidiary to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Australian Accounting Standards or IFRS[7], excluding the impact of any adjustments made for consolidation procedures and for the business combination in which the parent acquired the subsidiary.

This exemption is also available to an associate or joint venture adopting Australian Accounting Standards later than its investor.

Earlier application is permitted.

[6] A foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
[7] As amended by AASB 2022-2.

## Accounting policies and estimates

### AASB 2021-2[8] Amendments to AASB 7, AASB 101, AASB 134 Interim Financial Reporting and AASB Practice Statement 2 Making Materiality Judgements[9] – Disclosure of Accounting Policies

Effective for annual reporting periods beginning on or after 1 January 2023

The amendments to AASB 101 *Presentation of Financial Statements* require disclosure of **material**[10] accounting policy information, instead of **significant** accounting policies. Unlike 'material', 'significant' was not defined in Australian Accounting Standards. Leveraging the existing definition of material with additional guidance is expected to help preparers make more effective accounting policy disclosures. The guidance illustrates circumstances where an entity is likely to consider accounting policy information to be material. Entity-specific accounting policy information is emphasised as being more useful than generic information or summaries of the requirements of Australian Accounting Standards.[11]

The amendments to AASB Practice Statement 2 supplement the amendments to AASB 101 by illustrating how the four-step materiality process can identify material accounting policy information.

Earlier application of the amendments is permitted.

**Resource**

*IFRS Developments Issue 187: The Disclosure Initiative – IASB amends the accounting policy requirements (February 2021)*

### AASB 2021-6 Amendments to AASs – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards

Effective for annual reporting periods beginning on or after 1 January 2023

To be consistent with the amendments made by AASB 2021-2 to accounting policy disclosures, the AASB amended specific Australian Accounting Standards to improve the usefulness of accounting policy disclosures:

- AASB1049 *Whole of Government and General Government Sector Financial Reporting* and AASB 1054 *Australian Additional Disclosures* were amended to refer to material accounting policy information rather than significant accounting policies.
- AASB 1060 was similarly amended, highlighting that information about the measurement bases for financial instruments is expected to be material.

[8] Refer to the Catalogue for the title and topics covered by this standard.
[9] A Practice Statement is non-mandatory guidance developed by the AASB.
[10] Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of GPFS make on the basis of those financial statements, which provide financial information about a specific reporting entity.
[11] AASB 7 was amended to highlight that information about the measurement basis for financial instruments is expected to be material accounting policy information. AASB 134 *Interim Financial Reporting* was updated to state that a complete set of financial statements as defined by AASB 101 include material accounting policy information.

## Accounting policies and estimates

### AASB 2021-2 Amendments to AASB 108 – Definition of Accounting Estimates

Effective for annual reporting periods beginning on or after 1 January 2023

An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information.

The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively[12].

The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error.

- For example, a change in a valuation technique used to measure the fair value of an investment property from market approach to income approach would be treated as a change in estimate rather than a change in accounting policy.
- In contrast, a change in an underlying measurement objective, such as changing the measurement basis of investment property from cost to fair value, would be treated as a change in accounting policy.

The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.

The amendments are applied prospectively. Earlier application is permitted.

**Resource**

*IFRS Developments Issue 186: The IASB defines accounting estimates (February 2021)*

[12] A change in accounting policy is applied retrospectively except in the following circumstances:

- It is impracticable to do so.
- When an entity changes an accounting policy upon initial application of a new standard and there are specific transition provisions that do not permit retrospective application of the new standard.
- When an entity changes its policy to revalue assets in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*.

## Classification of liabilities

**AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current**

Effective for annual reporting periods beginning on or after 1 January 2024[13]

**AASB 2022-6 Amendments to AASs – Non-current Liabilities with Covenants**

Effective for annual reporting periods beginning on or after 1 January 2023

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB issued AASB 2020-1 *Amendments to AASs – Classification of Liabilities as Current or Non-current* to clarify the requirements for classifying liabilities as current or non-current, specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management intention or expectation does not affect the classification of liabilities.
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

A consequence of the first amendment is that a liability would be classified as current if its repayment conditions failed their test at reporting date, despite those conditions only becoming effective in the 12 months after the end of the reporting period.

In response to this possible outcome, in December 2022 the AASB issued AASB 2022-6 *Amendments to AASs - Non-current Liabilities with Covenants:*

- Clarifying that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- Adding presentation and disclosure requirements for non-current liabilities subject to compliance with future covenants within the next 12 months.
- Clarifying specific situations in which an entity does not have a right to defer settlement for at least 12 months after the reporting date.

These amendments are applied retrospectively. Earlier application is permitted.

**Resources**

*IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (Updated July 2020)*

*IFRS Developments Issue 209: IASB amends the requirements classification of non-current liabilities with covenants (October 2022)*

[13] AASB 2022-6 *Amendments to AASs – Non-current Liabilities with Covenants* pushed back the effective date of AASB 2020-1 to annual reporting periods beginning on or after 1 January 2024.

## Classification of liabilities

### AASB 2023-3 Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2

Effective for annual reporting periods beginning on or after 1 January 2024

Consistent with the AASB 2020-1 and AASB 2022-6 amendments to Tier 1 reporting, as described on the previous page, AASB 2023-3 introduces changes to simplified disclosure (SDS) requirements for classifying and disclosing borrowings with convents. The amendments[14]:

- Clarify that a liability is classified as non-current when the entity can defer settlement for at least 12 months from the reporting date
- Clarify how settlement by the issuance of equity instruments may impact classification
- Require additional disclosures to explain the risk of these borrowings becoming repayable within twelve months

These amendments are consistent with those made by AASB 2020-1 and AASB 2022-6 for Tier 1 reporting requirements, as described on the previous page.

These amendments are applied retrospectively. Earlier application is permitted.

[14] The amendments are to AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.

## Other topics

### AASB 2020-3 Amendments to AASB 3 – Reference to the Conceptual Framework[15]

Effective for annual reporting periods beginning on or after 1 January 2022

When the revised Conceptual Framework was issued in 2018, its application to AASB 3 *Business Combinations* was excluded, requiring entities to apply the definitions of an asset and a liability (and supporting concepts) in the previous Framework.

This exemption responded to concerns that, in some cases, the revised definitions might change which assets and liabilities qualify for recognition in a business combination. As a consequence, post-acquisition accounting required by other standards could lead to immediate derecognition of such assets or liabilities, causing 'day 2 gains or losses' to arise, which do not depict economic reality.

The IASB has now assessed the impact of the revised definitions of assets and liabilities in the *Conceptual Framework* to business combinations, concluding that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after acquisition by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*.

The IASB updated IFRS 3 in May 2020 for the revised definitions of an asset and a liability, and excluded the application of the *Conceptual Framework* to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21.

The AASB released the equivalent amendments to AASB 3 in June 2020.

These amendments are applied prospectively. Earlier application is permitted.

**Resources**

*IFRS Developments Issue 169: Amendments to IFRS 3 - Reference to the Conceptual Framework (May 2020)*

*Applying IFRS: IASB issues revised Conceptual Framework for Financial Reporting (April 2018)*

### AASB 2020-3 Amendment to AASB 141 – Taxation in Fair Value Measurements

Effective for annual reporting periods beginning on or after 1 January 2022

When using a present value technique to measure fair values of assets within the scope of AASB 141 *Agriculture*, taxation cash flows are not included. While AASB 13 *Fair Value Measurement* does not prescribe an entity to use a particular present value technique[16] to measure fair value, it requires assumptions about cash flows and discount rates to be internally consistent. Depending on facts and circumstances, an entity applying a present value technique might measure fair value by discounting after-tax cash flows using an after-tax discount rate or pre-tax cash flows at a pre-tax discount rate.

The AASB has removed from AASB 141 the requirement to exclude taxation cash flows when measuring fair value. Such removal aligns with the principles of fair value measurement in AASB 13.

The amendment is applied prospectively. Earlier application is permitted.

[15] *The Conceptual Framework for Financial Reporting (Conceptual Framework)* describes the objective of, and the concepts for, general purpose financial reporting. The Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard.

[16] Present value techniques differ in how they adjust for risk and in the type of cash flows they use.

## Other topics

### AASB 2020-3 Amendments to AASB 116 – Property, Plant and Equipment: Proceeds before Intended Use

Effective for annual reporting periods beginning on or after 1 January 2022

Under AASB 116 *Property, Plant and Equipment*, net proceeds from selling items produced while constructing an item of property, plant and equipment[17] are deducted from the cost of the asset. The IASB's research indicated diversity in interpreting this requirement. As a result, AASB 116 was amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment, the proceeds from selling items produced before that asset is available for use. An entity is also required to measure production costs of the sold items by applying AASB 102 *Inventories*. Proceeds from selling any such items, and the cost of those items, are recognised in profit or loss in accordance with applicable standards.

These amendments are applied retrospectively, but only to items of property, plant and equipment that are 'ready to use' on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments — 'ready to use' meaning the asset is in the location and condition necessary to be capable of operating in the manner intended by management. Earlier application is permitted.

**Resource**

*IFRS Developments Issue 155: Revenue earned before an asset is ready for its intended use (November 2019)*

### AASB 2020-3 Amendments to AASB 137 – Onerous Contracts – Cost of Fulfilling a Contract

Effective for annual reporting periods beginning on or after 1 January 2022

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* defines an onerous contract as one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable cost is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it.

AASB 137 does not specify which costs to include in determining the cost of fulfilling a contract. Consequently, AASB 137 was amended to clarify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises all costs that relate directly to the contract, which includes both the:

- Incremental costs of fulfilling that contract (e.g., materials and labour).
- An allocation of other costs that relate directly to fulfilling contracts (e.g., depreciation of property, plant and equipment).

[17] An item of property, plant and equipment under construction may be capable of producing saleable items (e.g., samples produced when testing whether the asset is functioning properly) while not yet capable of operating in the manner intended by management (i.e., before depreciation of the asset begins).

## Other topics

An entity shall apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Comparative information is not restated. Instead, the cumulative effect of initially applying the amendments is recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. Earlier application of the amendments is permitted.

**AASB 2022-3 Amendments to AASs – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15**

Effective for annual reporting periods beginning on or after 1 July 2022

AASB 2022-3 adds an illustrative example to AASB 15 on accounting for upfront fees received by NFP entities.

The basis of conclusions included within AASB 2022-3 also documents the AASB's decision to retain the temporary relief earlier provided to private sector NFP entities when measuring concessionary leases[18]. As a result, private sector NFP entities can measure concessionary leases at cost on an ongoing basis. Although the relief is also still available to public sector NFP entities, any decision about its ongoing applicability has been deferred until further guidance on how to measure the fair value of concessionary leases is considered.

**AASB 2022-7 Editorial Corrections to AASs and Repeal of Superseded and Redundant Standards**

The editorial corrections apply to annual reporting periods beginning on or after 1 January 2023. Early application is permitted.

AASB 2022-7 makes editorial corrections to AASB 7 *Financial Instruments: Disclosures*, AASB 116, AASB 124, AASB 128, AASB 134, AASB 1054 and AASB Practice Statement 2. None of the corrections change the practical application of the standards.

AASB 2022-7 also repeals AASs that have been superseded by other standards but not formally repealed.

**AASB 2022-8 Amendments to AASs – Insurance Contracts: Consequential Amendments**

Effective for annual reporting periods beginning on or after 1 January 2023

AASB 2022-8 amends several Australian Accounting Standards to permit public sector entities to continue applying AASB 4 and AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

The standard also amends AASB 17 to repeal AASB 1038 – Life Insurance Contracts (July 2004) and supersede Interpretation 1047 Professional Indemnity Claims Liabilities in Medical Defence Organisations for annual periods beginning on or after 1 January 2023.

[18] AASB 16 paragraphs Aus25.1-Aus25.2 provide an accounting policy choice for NFP entities to initially measurement right-of-use assets arising under concessionary leases at cost or fair value.

## Other topics

### AASB 2022-10 Amendments to AASs – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities

Effective for annual reporting periods beginning on or after 1 January 2024

AASB 2022-10 amends AASB 13, including adding authoritative implementation guidance and providing illustrative examples, for fair value measurement of non-financial assets of not-for-profit public sector entities not held primarily to generate net cash inflows. Specifically, for such an asset, the amendments:

- Specify that an entity is required to consider whether the asset's highest and best use differs from its current use only when it is held for sale or held for distributions to owners under AASB 5, or if it is highly probable that it will be used for an alternative purpose.
- Clarify that an asset's use is 'financially feasible' if market participants would be willing to invest in its service capacity, considering both the capacity to provide goods or services and the resulting costs of those goods and services.
- Specify that if both market price and market data required to fair value the asset are not observable, an entity should start with its own assumptions and adjust them to the extent that reasonably available information indicates that other market participants would use different data.
- Provide guidance on how the cost approach is to be applied to fair value such an asset.

Earlier application of the amendments is permitted.

### AASB 2023-1 Amendments to AASs – Disclosures of Supplier Finance Arrangements

Effective for annual reporting periods beginning on or after 1 January 2024

AASB 2023-1 amends AASB 107 and AASB 7 by:

- Clarifying the characteristics of supplier finance arrangements
- Introducing new disclosure requirements to assist users in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

A supplier finance arrangement, as clarified by the amendment, has the following characteristics:

- One or more finance providers pay amounts an entity owes to its suppliers.
- The entity settles the amounts with the finance providers at the same time or after the date the finance providers pay the suppliers.
- As a result, the finance providers provide the entity with extended payment terms, or the suppliers with early payment terms, compared to the original due dates

The amendments require disclosures on the impact of supplier finance arrangements on liabilities and cash flows, including:

- Terms and conditions
- The line items in which the supplier finance arrangement financial liabilities are presented
- Carrying amounts, showing separately those for which the finance providers have settled the corresponding trade payables

## Other topics

- The range of payment due dates of the financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements
- The types and effects of non-cash changes, which prevent the carrying amounts of the financial liabilities from being comparable

The amendments also include supplier finance arrangements as an example of relevant disclosure for quantitative liquidity risk disclosures under IFRS 7 and provide guidance on aggregation and disaggregation of information.

**Resource**

*IFRS Developments Issue 217: Supplier finance arrangements – new disclosure requirements (May 2023)*

# IFRIC agenda decisions

## Interpretations and agenda decisions

The IFRS Interpretations committee (IFRIC) issued no recent interpretations. However, it issued several agenda decisions; whilst they do not add or change requirements in Australian Accounting Standards, entities are required to consider explanatory material in an applicable agenda decision when applying Australian Accounting Standards.

Entities need to consider the impact of each agenda decision, based on their circumstances, and possibly adopt a change in policy. Agenda decisions do not have commencement dates and so are effective when issued. However, entities are entitled to sufficient time[19] to assess impacts and make required changes. ASIC media releases and Q&As may also provide useful guidance on expectations about implementation timelines.

Below we summarise all IFRIC agenda decisions published during the period from 1 January 2022 to 30 June 2023.

### Targeted longer-term refinancing operations (TLTROs) transactions – March 2022

The IFRIC discussed how to account for the third program of the TLTROs of the European Central Bank. The TLTROs link the amount that a participating bank can borrow, and the interest rate the bank pays on each tranche of borrowings, to the volume and amount of loans it makes to non-financial corporations and households.

The IFRIC discussed whether the TLTROs should be accounted for by the borrowing bank applying IFRS 9 *Financial Instruments* or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, given they may have below-market interest rates.

The IFRIC observed that:

- IFRS 9 is the starting point, while IAS 20 provides an adequate basis to assess whether the TLTROs contain a portion that is treated as a government grant, such as a below-market interest rate.
- Determining whether an interest rate is a below market rate requires judgement based on the specific facts and circumstances.

The IFRIC further considered the impact of conditions creating uncertainty about future interest rates, impacting the estimation of effective interest rates and measurement of the financial liability. This issue was considered too broad for IFRIC, which recommended that it be considered as a part of the post-implementation review of IFRS 9.

### Demand Deposits with Restrictions on Use arising from a Contract with a Third Party – April 2022

The IFRIC discussed whether a demand deposit which is subject to contractual restrictions on use is a part of cash and cash equivalents.

In this situation, terms and conditions of the demand deposit do not restrict the use of the funds. However, the entity has a contractual obligation with a third party to keep specified amounts in the deposit account and to use the funds only for specified purposes.

[19] The IASB advised that ‘sufficient time’ will depend on the particular facts and circumstances. Refer IFRS feature article: Agenda decisions - time is of the essence.

## Interpretations and agenda decisions

The IFRIC noted that third party restrictions on use do not change the nature of the deposit. Therefore, it concluded that this demand deposit forms a part of cash and cash equivalents. When relevant, the entity presents this as an additional line item within the cash and cash equivalents note. The deposit should be classified as a current asset, unless restrictions over its exchange or use to settle a liability apply for at least 12 months from the reporting date.

**Principal versus Agent: Software Reseller– May 2022**

The IFRIC discussed whether a reseller of software licences is operating as a principal or agent.

In the situation considered, the reseller provides pre-sale advice to customers, negotiates price and places orders on behalf of each customer.

Should the reseller order software licences that do not meet customer needs, the customer can reject the order. If this happens, the reseller bears the loss as it cannot return the licences or resell them to another customer.

The software manufacturer provides the software licence under an agreement between the manufacturer and the customer.

The IFRIC noted that pre-sale advice is not an implicit promise in the contract with the customer. Therefore, the software licence is the only promised good and service in the reseller's contract with the customer.

The IFRIC noted that the reseller would be a principal if it controlled the software licences before transferring them to customers.

It also noted that assessing whether the reseller obtains control of the software before transferring it to customers requires consideration of all facts and circumstances, which include the terms and conditions of the contracts between the reseller and the customer, the reseller and the software manufacturer, and the software manufacturer and the customer.

It was concluded that IFRS accounting standards provide an adequate basis to determine whether the reseller was a principal; however, no conclusion was reached for the fact pattern discussed.

**Negative Low Emission Vehicle Credits – July 2022**

The IFRIC discussed whether particular government measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In the situation considered, entities receive positive or negative credits for produced or imported vehicles whose average fuel emissions are lower or higher than a government target. Entities are required to eliminate negative credits by surrendering or obtaining, either by purchasing from another entity or by generating more in the next year, positive credits. Failing to eliminate negative credits could result in government - imposed sanctions such as restricting access to the market. The sanctions would not involve fines or penalties, or any other outflow of economic benefit resources.

In considering whether an entity that has negative credits has a present obligation that represents an IAS 37 liability, the IFRIC noted that either method of settling the negative credits would result in an outflow of resources.

## Interpretations and agenda decisions

It also noted that if an entity has produced or imported vehicles that do not meet the government target, an obligation has arisen from past events and exists independently of the entity's future actions.

The IFRIC concluded that the government measures could create a legal obligation if accepting the sanctions for non-settlement is not a realistic alternative for the entity. It also observed, however, that determining whether accepting sanctions is a realistic alternative requires judgement and will depend on the nature of the sanctions and the entity's specific circumstances. If an entity determines that it has no legal obligation to eliminate its negative credits, it will then need to consider whether it has a constructive obligation to do so.

It was concluded that IFRS accounting standards provide an adequate basis to determine whether the entity has an obligation that meets the definition of a liability under IAS 37; however, no conclusion was reached for the fact pattern discussed.

### Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity – July 2022

The IFRIC considered an issue relating to the assessment of shareholders' contractual rights when classifying public shares issued by a SPAC as financial liabilities or equity. A SPAC is a listed entity established to acquire a yet-to-be-identified target entity.

In the fact pattern discussed, a SPAC issues two classes of shares, class A (founder shares) and class B (public shares). Class B shareholders, along with class A shareholders, have the contractual right to extend the SPAC's life indefinitely if no target entity is acquired, avoiding a reimbursement of the Class B shares. The question asked is whether the shareholders' decision to extend the SPAC's life is considered to be within the control of the SPAC.

The IFRIC observed that IAS 32 includes no requirements on how to assess whether a decision of shareholders is treated as a decision of the entity and also acknowledged that similar questions about shareholder decisions arise in other circumstances.

However, the issue has been identified as a practice issue to be considered in the Financial Instruments with Characteristics of Equity (FICE) project.

### Transfer of Insurance Coverage under a Group of Annuity Contracts - July 2022

The IFRIC discussed the method to determine the amount of the contractual service margin (CSM) to be recognised in a period for a group of annuity contracts. The amount of CSM recognised needs to reflect the provision of insurance services in the period.

Under the groups of annuity contracts described, policyholders pay the premium upfront with no right to cancel or seek a refund. They receive periodic payments from the start of the annuity period for as long as they survive but receive no other services under the contracts. The group includes both contracts that have immediate annuity and those that have a deferred annuity.

## Interpretations and agenda decisions

In considering an appropriate method for determining the benefits of insurance coverage provided in the current period and expected to be provided in the future, the IFRIC observed that the benefits of insurance coverage under the contracts are the policyholders' right to claim a periodic amount as long as they survive. The policyholders have no right to claim before the start of the annuity period and their right to claim in future years is contingent on them surviving in those future years.

The IFRIC considered a method under which the benefits in the current period are determined based on the annuity payments in the current period and the benefits in the future are determined based on the present value of the annuity payments expected in the future. The IFRIC concluded that such a method met the requirement of IFRS 17 *Insurance Contracts* by assigning the quantity of benefits only to periods in which an insured event (survival) can occur, resulting in a policyholder having the right to claim and aligning the quantity of benefits in a period with the amount that could be claimed in that period.

The IFRIC also noted that for the annuity contracts described, the entity accepts insurance risk related to the uncertainty about how long the policyholders will survive. The entity would apply other requirements in IFRS 17 to recognise in profit or loss, separately from the CSM, the risk adjustment for that non-financial risk.

### Multi-currency Groups of Insurance Contracts – October 2022

The IFRIC considered how an entity accounts for insurance contracts with cash flows in more than one currency. Two specific questions asked were whether currency exchange rate risks should be considered when identifying portfolios of insurance contracts under IFRS 17, and how to apply IAS 21 *The Effects of Changes in Foreign Exchange Rates* in conjunction with IFRS 17 when measuring a multi-currency group of insurance contracts.

In relation to the first question, the IFRIC concluded that an entity is required to consider all risks, including currency exchange rate risks, when assessing whether insurance contracts are 'subject to similar risks' for the purpose of identifying portfolios of insurance contracts. However, 'similar risks' does not mean 'identical risks' and therefore an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The IFRIC observed that what an entity considers to be 'similar risks' will depend on the nature and extent of risks in the insurance contracts.

In relation to the second question, the IFRIC observed that both IFRS 17 and IAS 21 refer to single currency transactions or items. IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items with cash flows in more than one currency.

## Interpretations and agenda decisions

The IFRIC therefore observed that an entity, based on its specific circumstances and the terms of the contracts in the group, uses judgement to develop and apply an accounting policy that determines the currency denomination of the group, including the contractual service margin (CSM), which could be a single currency or multiple currencies. The entity cannot simply presume that the CSM is denominated in the functional currency.

In measuring a multi-currency group of insurance contracts, the IFRIC observed that an entity applies IFRS 17 to treat that group, including the CSM, as a monetary item and applies IAS 21 to translate their carrying amounts into the entity's functional currency.

A single-currency denomination treats changes in exchange rates between the currency of the cash flows and the currency of the insurance contract group as changes in financial risk accounted for under IFRS 17, while changes in exchange rates between the currency of that group and the functional currency of the entity as exchange differences accounted for under IAS 21.

A multi-currency denomination treats all changes in exchange rates as exchange differences accounted for under IAS 21.

The IFRIC also considered and decided not to add a standard-setting project on how to account for the foreign currency aspects of insurance contracts to the workplan.

### Lessor Forgiveness for Lease Payments – October 2022

The IFRIC discussed the application of IFRS 9 and IFRS 16 in accounting for forgiveness of lease payments in an operating lease. In the fact pattern considered, the lease payments forgiven include both amounts due but not paid and amounts not yet due, and no other changes are made to the lease contract.

The IFRIC discussed three issues:

- *Applying the IFRS 9 expected credit loss (ECL) model to the operating lease receivable (amounts due but not paid) before the rent forgiveness is granted:* The IFRIC concluded that before the rent forgiveness is granted, the lessor measures ECL on the operating lease receivable considering its expectation of forgiving the lease receivables.
- *Applying IFRS 9 derecognition requirements to the operating lease receivables forgiven*: on granting the forgiveness, the derecognition requirements under IFRS 9 are met. On the grant date, the lessor remeasures ECL and derecognises the operating lease receivable and associated ECL allowance.
- *Applying IFRS 16 modification requirements to future lease payments*: the forgiveness of lease payments meets the definition of a lease modification and the lessor accounts for the modified lease as a new lease from the grant date. Neither the due-but-not-paid lease payments nor their forgiveness are considered part of the lease payments for the new lease.

## Interpretations and agenda decisions

**Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition – October 2022**

The IFRIC discussed how an entity accounts for warrants issued on acquisition of a SPAC. In the fact pattern discussed:

- An entity acquires control of a SPAC that has raised cash in an IPO. The purpose of the acquisition is to obtain the cash and the SPAC's stock exchange listing. The SPAC has no assets other than cash and is not a business under the definition of IFRS 3 *Business Combinations*.
- Before the acquisition, in addition to ordinary shares, the SPAC had issued warrants to founder shareholders for their services and warrants to public shareholders along with ordinary shares at the IPO.
- The entity issues new ordinary shares and new warrants to the SPAC's shareholders in exchange for the SPAC's ordinary shares and the legal cancellation of the SPAC warrants and replaces the SPAC as the entity listed on the stock exchange.
- The SPAC's shareholders are not SPAC employees, nor will they provide any services to the entity after the acquisition.
- The fair value of instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets.

The IFRIC considered key questions in accounting for the transaction and noted:

- The acquisition is an asset acquisition and not a business acquisition. The entity recognises individual identifiable assets acquired and liabilities assumed.
- In identifying individual liabilities assumed as part of the acquisition, the entity assesses whether it assumes the SPAC warrants as a part of the acquisition. If so, the entity issues only the ordinary shares to acquire the SPAC and assume the SPAC warrants, then issues new warrants to replace the SPAC warrants. If not, the entity issues both ordinary shares and new warrants to acquire the SPAC.
- The fair value of the instruments issued to acquire the SPAC may exceed the fair value of net assets acquired. If so, in applying IFRS 2 requirements relating to unidentifiable goods or services, the IFRIC concluded that the entity receives a stock exchange listing service as part of a share-based payment transaction and measures the service received as the difference between the fair value of the instruments issued and the fair value of net assets acquired.
- The entity applies IFRS 2 *Share-based Payment* to account for instruments issued to acquire the stock exchange listing service.
- The entity applies IAS 32 *Financial Instruments: Presentation* to account for instruments issued to acquire cash and assume any liability related to the SPAC warrants.

## Interpretations and agenda decisions

The IFRIC also provided some additional accounting considerations if the entity concludes that, as part of the acquisition, it assumes the SPAC warrants, specifically how to account for the SPAC warrants assumed and the replacement warrants issued, and accounting considerations if it concludes that it does not assume the SPAC warrant, specifically which types of instruments were issued for the SPAC's net assets and which were issued for the listing service.

**Definition of a Lease – Substitution Rights – April 2023**

The IFRIC discussed how to determine whether there is an identified asset when an arrangement contains a substitution right. In the situation considered:

- A customer enters into a 10-year contract with a supplier for a number of similar assets (batteries), each of them is used together with other readily available resources (buses) of the customer.
- The supplier has the practical ability to substitute alternative assets throughout the contract term. The supplier, however, is required to compensate the customer for any revenue lost or costs incurred while the substitution takes place.
- Whether substitution is economically beneficial for the supplier at a point in time depends on both the amount of compensation payable to the customer and the condition of the battery.
- At inception of the contract, it is expected that the supplier would not benefit economically from substituting a battery that has been used for less than 3 years, but could benefit economically from substituting a battery that has been used for 3 years or more.

The IFRIC concluded that:

- The level at which to assess whether the contract contains a lease is individual assets, since each battery is specified, either explicitly in the contract or implicitly at the time is it made available to the customer.
- Because the supplier is not expected to benefit economically from its right to substitute a battery for at least the first 3 years of the contract, the supplier does not have the substantive right to substitute a battery throughout the period of use.

The IFRIC also observed that:

- The standard sets a high hurdle to conclude that there is no identified asset when an asset is explicitly or implicitly specified.
- Determining whether a supplier's right to substitute an asset is substantive throughout the period of use requires judgement.
- A supplier can have the practical ability to substitute alternative assets throughout the period of use even if the supplier does not already have alternative assets but could source those assets within a reasonable period of time. This illustrates that the term 'throughout the period of use' does not mean 'at all times' within that period.

# Catalogue of new accounting pronouncements issued as of 30 June 2023

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| AASB 2023-2 *Amendments to AASB 112 – International Tax Reform Pillar Two Model Rules*[29] | 23 May 2023[29] | 6 |

[20] For full access to Australian Accounting Standards please visit https://www.aasb.gov.au/.
[21] Effective for annual reporting periods beginning on or after this date, unless separately noted.

[29] The exception added to AASB 112 applies retrospectively and immediately. Disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023

# Catalogue of new accounting pronouncements issued as of 30 June 2023

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| AASB 2022-10 *Amendments to AASs – Fair Value Measurement of Non-financial Assets of Not-for-Profit Public Sector Entities* | 1 January 2024 | 19 |
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| AASB 2023-1 *Amendments to AASs – Amendments to AASB 107 and AASB 7 – Disclosures of Supplier Finance Arrangements* | 1 January 2024 | 19 |
| AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2* | 1 January 2024 | 15 |

[22] For full access to Australian Accounting Standards please visit https://www.aasb.gov.au/.
[23] Effective for annual reporting periods beginning on or after this date.

[24] AASB 2021-7 *Amendments to AASs – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* deferred the effective date of AASB 2014-10 to annual reporting periods beginning on or after 1 January 2025.

# Catalogue of IFRIC agenda decisions

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