ACT ACCOUNTING POLICY

TREATMENT OF AASB STANDARDS ISSUED WHICH ARE NOT YET EFFECTIVE AS AT 30 JUNE 2018

FOR THE REPORTING PERIOD ENDED 30 JUNE 2018

ACT Accounting Policy —AASB Standards issued which are not yet effective as at 30 June 2018

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1 INTRODUCTION

1.1 APPLICATION

This ACT Accounting Policy applies to directorates and territory authorities and covers Australian Accounting Standards and Interpretations which have been issued as at 30 June 2018 that are not yet effective. These standards and interpretations will apply during reporting periods later than 2017-18.

2 TREATMENT OF AASB STANDARDS ISSUED WHICH ARE NOT YET EFFECTIVE

2.1 DISCLOSURES REQUIRED FOR STANDARDS ISSUED BUT NOT YET EFFECTIVE

When a directorate or territory authority has not early adopted a new accounting standard, due to the fact that the standard is effective (i.e. compulsory) in a later reporting period, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors requires the directorate or territory authority to disclose details regarding that standard and its potential financial impact on the financial statements which may occur when the standard is applied. AASB 108.30 and 31 contain the disclosure requirements.

This policy paper has been developed to assist agencies in making these disclosures. As such, this paper provides an indication of what changes have been included in standards which have been issued but are not yet effective. 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 upon application, by reading this policy;**
2. **Assess whether there may be a material financial impact upon the agency (for all standards and interpretations that will apply) by reviewing the changes listed in this policy <u>and</u> referring directly to the standards and/or interpretations;**
3. **Only disclose details of the standards and interpretations which apply and are assessed as having a material financial impact on them, or where they have not yet assessed their impact in the format as presented in the 2017-18 Model Financial Statements (and Attachment A); 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.**

For disclosure requirements, agencies should refer to Attachment A as it provides an updated Appendix C *Impact of Accounting Standards Issued but yet to be Applied* disclosure which contains a list of standards and interpretations, which are assessed as being applicable to 'Example Agency', that have been issued but are not yet effective for the 2017-18 financial year. This updates the example provided within Appendix C as presented in the 2017-18 Model Financial Statements. As noted above, the listing of standards in Attachment A and the associated commentary is to assist agencies in making the necessary disclosures. Agencies should assess from the list what standards they need to disclose bearing in mind the criteria in the next paragraph.

Note that only the standards issued but not yet effective which either are applicable to an agency and are assessed as having a material financial impact or the standards where such an assessment has not yet been made must be included in Appendix C. Agencies should also check the additional standards listed in the commentary to Appendix C (as appearing in Attachment A). These standards have been assessed as not applicable to most agencies; however, agencies should verify that they don't apply.

3 SUMMARIES OF CHANGES TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards and interpretations, currently issued by the AASB, which apply to reporting periods ending after 30 June 2018 include:

AASB Compiled Standards

AASB 9	*Financial Instruments*
AASB 15	*Revenue from Contracts with Customers*
AASB 16	*Leases*
AASB 17	*Insurance Contracts*
AASB 1058	*Income of Not-for-Profit Entities*
AASB 1059	*Service Concession Arrangements: Grantors*

AASB Amending Standards

AASB 2014-5	*Amendments to Australian Accounting Standards arising from AASB 15*
AASB 2015-8	*Amendments to Australian Accounting Standards – Effective Date of AASB 15*
AASB 2016-3	*Amendments to Australian Accounting Standards – Clarifications to AASB 15*
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
AASB 2016-6	*Amendments to Australian Accounting Standards–Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
AASB 2016-7	*Amendments to Australian Accounting Standards–Deferral of AASB 15 for Not-for-Profit Entities*
AASB 2016-8	*Amendments to Australian Accounting Standards–Australian Implementation Guidance for Not-for Profit Entities*
AASB 2017-1	*Amendments to Australian Accounting Standards–Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments*
AASB 2017-3	*Amendments to Australian Accounting Standards – Clarifications to AASB 4*
AASB 2017-4	*Amendments to Australian Accounting Standards–Uncertainty over Income Tax Treatments*
AASB 2017-5	*Amendments to Australian Accounting Standards-Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections*
AASB 2017-6	*Amendments to Australian Accounting Standards–Prepayment Features with Negative Compensation*
AASB 2017-7	*Amendments to Australian Accounting Standards-Long Term Interests in Associates and Joint Ventures*
AASB 2018-1	*Amendments to Australian Accounting Standards – Annual Improvements 2015-17 Cycle*
AASB 2018-2	*Amendments to Australian Accounting Standards- Plan Amendment, Curtailment or Settlement*
AASB Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
AASB Interpretation 23	*Uncertainty over Income Tax Treatments*

3.1 AASB 9 FINANCIAL INSTRUMENTS (APPL. 1 JANUARY 2018)

Background

The completed version of AASB 9 (2014) was issued in December 2014. It supersedes AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 (2014) sets out the requirements for recognising, classifying, measuring and de-recognising financial assets and financial liabilities, and the impairment of financial assets, hybrid contracts and hedging.

Application Date

AASB 2013-9 Part C extended the mandatory date of AASB 9 by 2 years to annual reporting periods beginning on or after 1 January 2017. AASB 2014-1 further extended the application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018.

Changes

Financial Assets

The following changes, in the treatment of financial assets, have arisen as a result of the introduction of AASB 9 now applicable to reporting periods commencing on or after 1 January 2018:

- Financial assets will be classified differently. Financial assets will only be classified as:
  - financial assets measured at amortised cost;
  - financial assets at fair value through other comprehensive income; or
  - financial assets at fair value through profit or loss.

  The determining criteria will be based on:
  - a) the objective of the entity's business model for managing financial assets, and
  - b) the characteristics of the contractual cash flows.

  This will replace the four categories of financial assets in AASB 139, which are:
  - financial asset at fair value through profit or loss;
  - held-to-maturity financial assets;
  - loans and receivables; and
  - available-for-sale financial assets.
- Where an agency holds an asset or portfolio of assets with the main objective to collect contractual cash flows on specific dates and those cash flows are solely in the form of principal and/or interest, these assets will be measured at amortised cost.
- Measurement of a financial asset will be required to be at fair value through other comprehensive income if the asset is held within a business model whose objective is both to hold assets in order to collect cash flows and to sell those assets; and those cash flows are solely payments of principal and interest.
- All other financial assets must be measured at fair value through profit and loss.
- When AASB 9 is applied, agencies will be required to assess the classification of all financial assets currently held, and apply any changes in measurement and recognition retrospectively in accordance with AASB 108.
- On application of AASB 9, the measurement basis for an agency's cash at bank, receivables, and investments with the Territory Banking Account cash enhanced portfolio, are not likely to change. However, as a result of the new measurement criteria being dependent upon the agency's business model (i.e. whether the investment is managed with a view for capital growth or to collect contractual cash flows) the measurement basis for an agency's investments with the TBA in the fixed interest portfolio may change from fair value to amortised cost.
- Agencies should analyse their own financial assets to determine the correct classification and measurement basis for their financial assets. A change in measurement basis, may give rise to a material financial impact on agency's financial statements.

3.1 AASB 9 - continued

- An irrevocable election is available at initial recognition, to present in other comprehensive income, changes in fair value of an investment in an equity instrument that is not held for trading. Dividends, which are a return on investment, can be recognised in profit or loss.
- Financial assets can be reclassified in instances where the agency's business model changes.
- Financial assets can be designated and measured at fair value, if doing so eliminates, or significantly reduces, a measurement or recognition inconsistency.

Changes in the treatment of financial assets that will most likely only be applicable to agencies such as the Territory Banking Account and the Superannuation Provision Account.

- Agencies that have hybrid contracts which contain a host that is an asset within the scope of AASB 9 shall treat the whole contract in accordance with AASB 9.
- Investments in unquoted equity instruments must be measured at fair value, however, in some instances cost may be an appropriate estimate of fair value.
- Investments in contractually linked instruments, that create concentrations of credit risk, are classified and measured using a 'look through' approach. This approach looks through to the underlying assets generating cash flows and assesses the cash flows against the classification criteria.

Financial Liabilities

In reissuing AASB 9 (December 2010) the de-recognition requirements for financial instruments and the recognition and measurement requirements for financial liabilities were transferred from AASB 139.

- AASB 9 will not allow re-classification of financial liabilities.
- The only significant change is to require that portion of a change of fair value relating to an entity's own credit risk for financial liabilities measured at fair value using the fair value option, to be separately presented in other comprehensive income (OCI), except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, agencies are required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- In relation to financial liabilities that are loan commitments or financial guarantee contracts, all gains and losses must be recognised in the operating result.

Impairment of Financial Assets

- Under the impairment approach in AASB 9 it is no longer necessary for a credit event to have occurred before losses are recognised. Instead an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition, and consequentially more timely information is provided about expected credit losses.

Hedge Accounting

- The hedge accounting additions to AASB 9 should not generally impact on ACT directorates and territory authorities.

Statutory Receivables

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not- For-Profit Entities* addresses the initial measurement and recognition of non-contractual receivables arising from statutory requirements (e.g. taxes, fees and fines). An Appendix C is inserted that provides guidance as to whether particular transactions or other events are within the scope of AASB 9 or AASB 1058 *Income of Not-for Profit Entities*.

3.1 AASB 9 - continued

Impact

AASB 9 should not materially impact directorates and territory authorities. The new impairment model may result in the earlier recognition of credit losses. Agencies must familiarise themselves with AASB 9. Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 9. Further guidance will be provided to agencies on the application of AASB 9.

3.2 AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (APPL. 1 JANUARY 2018 FOR FOR-PROFIT AGENCIES AND 1 JANUARY 2019 FOR NOT-FOR-PROFIT AGENCIES)

Background

AASB 15 *Revenue from Contracts with Customers* establishes the principles that an entity should apply to report to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle of AASB 15 is that an entity should recognise revenue in line with the transfer of promised goods or services to customers and that the amount recognised reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. AASB 15 replaces:

- AASB 111 *Construction Contracts*;
- AASB 118 *Revenue;*
- Interpretation 13 *Customer Loyalty Programmes*;
- Interpretation 15 *Agreements for the Construction of Real Estate*;
- Interpretation 18 *Transfers of Assets from Customers*;
- Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*; and
- Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*.

Contracts outside the scope of AASB 15 include lease contracts (AASB 17 *Leases*), insurance contracts (AASB 4 *Insurance Contracts*); and financial instruments (AASB 9 *Financial Instruments*).

A *contract* is an agreement between two or more parties that creates enforceable rights and obligations. A contract may take different forms and may be verbal. Just because a customer has not exercised their rights in the past does not mean they are not enforceable. A *customer* is a party that has contracted with an entity to obtain goods and services that are an output of the entity's ordinary activities in exchange for consideration.

AASB 15 establishes a five step revenue recognition model:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and
- recognise revenue progressively as individual performance obligations are satisfied.

To apply the five step model directorates and territory authorities may need to exercise significant judgement when considering all the facts and circumstances in relation to their contracts. Depending upon the specific terms of a contract, the model may result in a change in the timing and/or amount of revenue to be recognised. Some revenue may be recognised at a point in time (when control is transferred to the customer) or over the term of the contract (when performance obligations are satisfied progressively over a period of time).

In December 2016 the AASB released AASB 1058 Income of *Not-for-profit Entities*. AASB 1058 clarifies and simplifies the income recognition of requirements that apply to not-for -profit entities, in

3.2 AASB 15 – continued

conjunction with AASB 15. When applicable, AASB 1058 and AASB 15 will supersede the majority of income recognition requirements relating to public sector NFP entities.

Impact
Directorates and territory authorities must familiarise themselves with AASB 15. Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 15. The impact on agencies will depend up on the goods and services they provide and how the five step revenue recognition model applies to their contracts with customers. There may well be an impact of deferring revenue that is currently recognised earlier e.g. when cash is received but the performance obligation under the contract has not been met. On the other hand, another possible impact could be the upfront recognition of revenue from licences that cover multiple periods rather than recognition over time - depending upon the terms of the contract. Detailed guidance will be provided to agencies prior to AASB 15 having to be applied.
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the effective application of AASB 15 until reporting periods beginning on or after 1 January 2018. AASB 2016-7 *Amendments to Australian Accounting Standards- Deferral of AASB 15 for Not-for-Profit Entities* amends the mandatory effective date (application date) of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

3.3 AASB 16 LEASES (APPL. 1 JANUARY 2019)

Background
The current AASB 117 *Leases* focuses on identifying when a lease is economically similar to purchasing the asset being leased. When an agency's lease is determined to be economically similar to purchasing the underlying asset, the lease is classified as a finance lease and reported on the agency's balance sheet. All other leases are classified as operating leases and these are not reported on the balance sheet.
The new AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value (e.g. personal computers, tablets, office furniture and telephones). A lessee is required to recognise a right-of-use asset (representing the right to use the underlying leased asset) and a lease liability (representing the obligation to make future lease payments).

All leases will be treated in the same manner, broadly similar to the current treatment of a finance lease. AASB 16 replaces:
AASB 17 *Leases*,
AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*
AASB Interpretation 115 *Operating Leases – Incentives;* and
AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
At the inception of a contract, an agency should assess whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The right-of-use asset is initially measured at cost which is the initial direct cost of the lease liability, plus any rent paid before the commencement of the lease, plus any make-good obligation minus any lease incentives received. The right- of- use asset will be depreciated.

3.3 AASB 16 - continued

The lease liability is initially recognised at the present value of unpaid lease payments discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. The finance costs will be expensed.

Lessor Accounting
Lessor accounting is largely unchanged and lessors will continue to distinguish between finance and operating leases.

Impact
Agencies must familiarise themselves with the requirements of AASB 16. Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 16. Most of the leases currently classified as operating leases will be reported in the balance sheet and depending upon the circumstances of the agency there could be a significant increase in their assets and liabilities. It is expected that there would be minimal impact on net assets. Further guidance will be provided to agencies prior to the implementation of AASB 16.

3.4 AASB 17 INSURANCE CONTRACTS (APPL. 1 JANUARY 2021)

Background

AASB 17 *Insurance Contracts* 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 entities 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 AASB 17 have on the financial position, financial performance and cash flows of the entity.

Impact
AASB 17 will have no impact on directorates and most territory authorities.

3.5 AASB 1058 INCOME OF NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2019)

Background
AASB 1058 *Income of Not-for-Profit Entities* clarifies and simplifies the income recognition requirements that apply to not-for-profit (NFP) entities, in conjunction with AASB 15 *Revenue from Contracts with Customers*. These standards supersede all the income recognition requirements relating to private NFP entities and the majority of income recognition requirements relating to public sector (NFP) entities, previously in AASB 1004 *Contributions*. The requirements of AASB 1058 are intended to more closely reflect the economic reality of NFP entity transactions that are not contracts with customers. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners related to an asset (such as cash or another asset) received by the entity.

3.5 AASB 1058- continued

Income that AASB 1058 Applies to

AASB 1058 *Income of Not-for-Profit Entities* establishes principles for recognising income:

- on transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives; and
- for the receipt of volunteer services.

Asset where consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives

Generally, when an agency receives resources as a grant/donation, it will initially recognise one or more of the following in accordance with the relevant accounting standard:

- an asset;
- any liability e.g. a contract liability, financial liability, liability for obligations from transfers to the entity to acquire/construct non-financial assets to be controlled by the agency;
- contributions by owners; and/or;
- income, being the residual amount of resources after recognising one or more of the above.

Agencies must immediately recognise the difference between the fair value of the asset and any related amounts as income in the operating statement. However if the transaction enables the agency to acquire or construct a recognisable non-financial asset controlled by the agency, the agency may recognise income as it satisfies its obligations under the transfer (similar to income recognition for performance obligations under AASB 15).A transfer of a financial asset to enable an agency to acquire or construct a recognisable non-financial asset controlled by the agency is one that:

- requires the agency to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- does not require the agency to transfer the non-financial asset to the transferor or other parties; and
- occurs under an enforceable agreement.

If an asset cannot be recognised under Australian accounting standards, for example cash received for research which is unable to be recognised as an asset under AASB 138 *Intangible Assets*, then relevant consideration would be recognised immediately.

Appendix B Application Guidance of AASB 1058 contains a flowchart (Chart 1) to assist in the application of these requirements.

Volunteer Services

The requirements regarding volunteer services mainly have the same scope and accounting treatment as currently applies under AASB 1004 for services received below fair value. Agencies must recognise volunteer services if:

- they would have been purchased had they not been donated; and
- the fair value of these services can be reliably measured.

What is left in AASB 1004?

While the majority of the requirements in AASB 1004 have been deleted, the residual requirements relate to:

- parliamentary appropriations;
- restructure of administrative arrangements; and
- contributions by owners and distributions to owners.

3.5 AASB 1058- continued

Impact
Agencies must analyse the impact of AASB 1058 (in conjunction with AASB 15) on their financial statements. Memorandum 2018/02 *Accounting Standards effective in Future Periods – Implementation Issues for Agencies* identified actions that agencies need to carry out in their initial assessment of AASB 1058. There may be a need for system changes, a detailed review of contracts and agreements and processes to enable a successful transition to AASB 1058. Further guidance will be provided to agencies to assist with the implementation of AASB 1058.

3.6 AASB 1059 SERVICE CONCESSION ARRANGEMENTS: GRANTORS (APPL. 1 JANUARY 2019

Background
AASB 1059 *Service Concession Arrangements: Grantor* addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting arrangement from a grantor's perspective.

AASB 1059 applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services. An arrangement within the scope of this Standard typically involves an operator constructing the assets used to provide the public service or upgrading the assets (for example by increasing their capacity) and operating and maintaining the assets for a specified period of time. Such arrangements are often described as build-operate-transfer or rehabilitate-operate transfer concession arrangements or public-private partnerships (PPPs).

Impact
This standard will impact a small number of ACT Government agencies. Agencies affected are assessing the effect of this standard on their financial statements and relevant disclosures.

3.7 AASB 2014-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 15 (APPL. 1 JANUARY 2018)

Background
AASB 2014-5 *Amendments to Australian Accounting Standards Arising from AASB 15* makes amendments to Australian accounting standards and interpretations arising from the release of AASB 15 *Revenue from Contracts with Customers*. AASB 15 establishes the principles for reporting in financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the effective application of AASB 15 until reporting periods beginning on or after 1 January 2018.

Impact
Refer to the Commentary in 3.2 AASB 15 *Revenue from Contracts with Customers* above.

3.8 AASB 2015-8 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – EFFECTIVE DATE OF AASB 15 (APPL. 1 JANUARY 2017)

Background

AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* deferred the effective application of AASB 15 *Revenue from Contracts with Customers* until reporting periods beginning on or after 1 January 2018. AASB 2016-7 *Amendments to Australian Accounting Standards-Deferral of AASB 15 for Not-for-Profit Entities* amends the mandatory effective date (application date) of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

Impact

This amending standard delays the application of AASB 15. Agencies will need to familiarise themselves with AASB 15.

3.9 AASB 2016-3 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLARIFICATIONS TO AASB 15 (APPL. 1 JANUARY 2018)

Background

AASB 2016-3 *Amendments to Australian Accounting Standards- Clarifications to AASB 15* amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. In addition, it provides further practical expedients on the transition to AASB 15.

Impact

AASB 2016-3 provides clarification of the existing requirements of AASB 15. Directorates and territory authorities will need to familiarise themselves with AASB 15. The impact on agencies will depend upon the goods and services they provide and how the five step revenue recognition model applies to their contracts with customers. Further guidance will be provided to agencies prior to AASB 15 having to be applied.

3.10 AASB 2016-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIOINS (APPL. 1 JANUARY 2018)

Background

AASB 2016-5 *Amendments to Australian Accounting Standards Classification and Measurement of Share Based Transactions* amends AASB 2 *Share-based Payment* to address

- the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

3.10 AASB 2016-5 - continued

Impact

Directorates and territory authorities do not have share based payments and this amending standard does not apply to them.

3.11 AASB 2016-6 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – APPLYING AASB 9 FINANCIAL INSTRUMENTS WITH AASB 4 INSURANCE CONTRACTS (APPL. 1 JANUARY 2018)

Background

AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* amends AASB 4 *Insurance Contracts* to permit issuers of insurance contracts to:

- choose to apply the 'overlay approach' that involves applying AASB 9 *Financial Instruments* and also applying AASB 139 *Financial Instruments: Recognition and Measurement* to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied; or
- choose to be temporarily exempt from AASB 9 when those issuers' activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying AASB 9.

The amendments do not apply to insurance contracts subject to AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

Impact

The AASB expects the amendments to have very limited application in Australia as they do not apply to AASB 1023 or AASB 1038. In any case, apart from the Australian Capital Territory Insurance Authority (ACTIA), directorates and territory authorities do not issue insurance contracts and this amending standard will not have an impact on them.

3.12 AASB 2016-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - DEFERRAL OF AASB 15 FOR NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2018)

Background

AASB 2016-7 *Amendments to Australian Accounting Standards- Deferral of AASB 15 for Not-for-Profit Entities* amends the mandatory effective date (application date) of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

This standard also defers, for not-for-profit entities, the consequential amendments that were originally set out in AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*. This deferral is achieved by restating the effective date of the amendments set out in AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* as they apply to not-for-profit entities.

Impact

This amending standard delays the application of AASB 15 for not-for-profit agencies and does not impact directorates and not-for –profit territory authorities. However, agencies will need to familiarise themselves with AASB 15 and assess its impact on them.

3.13 AASB 2016-8 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES (APPL. 1 JANUARY 2019)

Background

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not- For-Profit Entities* inserts Australian requirements and authoritative implementation guidance for not for profit entities into AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. This guidance assists not-for-profit entities in applying these standards to particular transactions and other events.

The AASB 9 amendments address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (e.g. taxes, fees and fines). An Appendix C is inserted that provides guidance as to whether particular transactions or other events are within the scope of AASB 9 or AASB 1058.

The AASB 15 amendments address the following aspects of accounting for contracts with customers:

- identifying a contract with a customer;
- identifying performance obligations; and
- allocating the transaction price to performance obligations.

An Appendix F is inserted that provides guidance as to whether particular transactions or other events are within the scope of AASB 15 or AASB 1058 relating to a contact and relating to identifying performance obligations.

Impact

Not-for-profit agencies will have to undertake a thorough review and of AASB 1058 and AASB 2016-8, noting the connection between AASB 1058 and AASB 15.

3.14 AASB 2017-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – TRANSFERS OF INVESTMENT PROPERTY, ANNUAL PROPERTY, ANNUAL IMPROVEMENTS 2014-16 CYCLE AND OTHER AMENDMENTS (APPL. 1 JANUARY 2018 FOR FOR-PROFIT ENTITIES AND 1 JANUARY 2019 FOR NOT-FOR-PROFIT ENTITIES)

Background

AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments* amends:

- AASB 1 *First time Adoption of Australian Accounting Standards* to delete some short-term exemptions for first time adopters that were available only for reporting periods that have passed and to add exemptions arising from AASB 22 Foreign Currency Transactions and Advance Consideration;
- AASB 128 Investments in Associates and Joint Ventures to clarify that:
  - A venture capital organisation , or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and
  - An entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate and joint venture; and

3.14 AASB 2017-1 - continued

- AASB 140 Investment Property to reflect the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.

Impact

This standard will not impact directorates and territory authorities. For those that have investment properties they will need to ensure that a transfer to, or from, an investment property occurs only where there is evidence of a change in use not just a management intention of a change in use.

3.15 AASB 2017-3 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLARIFICATIONS TO AASB 4 (APPL. 1 JANUARY 2018)

Background

This standard amends AASB 4 *Insurance Contracts* to confirm that in Australia compliance with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* ensures simultaneous compliance with AASB 4. AASB 1023 and AASB 1038 address all aspects of recognition, measurement and disclosure of general and life insurance contracts. These standards address a wider range of accounting requirements than AASB 4.

AASB 2017-3 also amends AASB 4 to ensure that the relief available to insurers of insurance contracts set out in 2016-16 *Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* can be applied by an entity applying either AASB 1023 or AASB 1038 if the entity otherwise meets the qualifying criteria.

Impact

Apart from the Australian Capital Territory Insurance Authority (ACTIA), directorates and territory authorities do not issue insurance contracts and this amending standard will not have an impact on them.

3.16 AASB 2017-4 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – UNCERTAINTY OVER INCOME TAX TREATMENTS (APPL. 1 JANUARY 2019)

Background

This standard contains consequential amendments to AASB 1 *First-time adoption of Australian Accounting Standards* arising from Interpretation 23 *Uncertainty over Income Tax Treatments.*

Impact

There is no impact on directorates and territory authorities.

3.17 AASB 2017-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – EFFECTIVE DATE OF AMENDMENTS TO AASB 10 AND AASB 128 AND EDITORIAL CORRECTIONS (APPL. 1 JANUARY 2018)

Background

AASB 2017-5 *Amendments to Australian Accounting Standards – Effective date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* defers the mandatory effective date (application date) of amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* that were originally made in AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2022 instead of 1 January 2018 (as specified in AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*).

The amendments in AASB 2014-10 originally applied to annual reporting periods beginning on or after 1 January 2016, but were later deferred by the IASB indefinitely. Due to legal implications, the AASB is unable to defer amendments indefinitely and initially deferred the amendments until 1 January 2018. As the IASB's amendments continue to be deferred indefinitely, this standard further defers the amendments to annual reporting periods beginning on or after 1 January 2022.

This standard also makes various editorial corrections to Australian Accounting Standards.

Impact

There is no impact on directorates and territory authorities.

3.18 AASB 2017-6 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (APPL. 1 JANUARY 2019)

Background

This standard amends AASB 9 *Financial Instruments* to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

Impact

There is no impact on directorates and territory authorities

3.19 AASB 2017-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – LONG TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (APPL. 1 JANUARY 2019)

Background

This standard amends AASB 128 *Investments in Associates and Joint Ventures* to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using AASB 9 Financial Instruments before applying the loss allocation and impairment requirements in AASB 128.

Impact

There is no impact on directorates and territory authorities.

3.20 AASB 2018-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – ANNUAL IMPROVEMENTS 2015-17 CYCLE (APPL. 1 JANUARY 2019)

Background

This standard amends:

- AASB 3 *Business Combinations* to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
- AASB 11 *Joint Arrangements* to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;
- AASB 12 *Income Taxes* to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and
- AASB *Borrowing Costs* to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Impact

There is no impact on directorates and territory authorities.

3.21 AASB 2018-2 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (APPL. 1 JANUARY 2019)

Background

This standard amends AASB 119 *Employee Entitlements* to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the measurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. It also clarifies that, when a plan event occurs, an entity recognised the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

Impact

There is no impact on directorates and territory authorities.

3.22 AASB INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (APPL. 1 JANUARY 2018 FOR FOR-PROFIT ENTITIES AND 1 JANUARY 2019 FOR NOT-FOR-PROFIT ENTITIES)

Background

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value, at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

Impact

This Interpretation will not impact directorates or territory authorities.

3.23 AASB INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENTS (APPL. 1 JANUARY 2019)

Background

This Interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

Impact

There is no impact on directorates and territory authorities.

ATTACHMENT A

Background

Below is a copy of the 'Impact of Accounting Standards Issued but yet to be Applied' disclosure as required by directorates and territory authorities for inclusion in their 2017-18 financial statements. **However, the list of standards needs to be tailored by including only those standards that are applicable to the agency and are assessed to have a material financial impact on the agency or where the impact on the agency has not yet been assessed.**

Please note that the standards and interpretations below are applicable to 'Example Agency'. As there have been no new accounting standards released by the AASB since the Model Financial Statements were issued in April 2018 the list is the same as in the Model. A complete list of standards for the consideration of each agency can be found by combining the list below and the list located within the grey commentary section. Each standard and interpretation mentioned below and appearing in the grey commentary section, is discussed in this paper.

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

- AASB 9 *Financial Instruments* (December 2014) (application date 1 Jan 2018)

This standard supersedes AASB 139 *Financial Instruments: Recognition and Measurement*. The main impact of AASB 9 is that it will change the classification, measurement and disclosures of 'Example Agency's financial assets. AASB 9 also includes a new expected credit loss model for determining impairment losses for financial assets.

No material financial impact on 'Example Agency' is expected.

- AASB 15 *Revenue from Contracts with Customers* (application date 1 Jan 2018 for for-profit entities, 1 Jan 2019 for not-for-profit entities);

AASB 15 is the new standard for revenue recognition. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue*. 'Example Agency' is currently assessing the impact of this standard and has identified there could be a potential impact on the timing of the recognition of revenue. Some revenue may need to be deferred to a future reporting period if "Example Agency" has received cash and has not met the associated performance obligations (this would create a liability until the performance obligations are met).

At this stage 'Example Agency' is not able to estimate the impact of this new standard on its financial statements. 'Example Agency will make a more detailed assessment of the impact over the next 12 months.

AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB for Not-for-Profit Entities* defers the effective date of AASB 15 for not-for-profit entities to 1 January 2019.

- AASB 16 *Leases* (application date 1 Jan 2019)

AASB 16 is the new standard for leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset value is low. This will result in "Example Agency' recognising a number of its operating leases as assets alongside the associated liability, rather than accounting for these as operating lease expenditure. The right-of-use asset will initially be recognised at cost and will give rise to a depreciation expense. The lease liability will initially be recognised as the present value of the lease payments during

the term of the lease. Lease payments made will reduce this liability over time and also result in an interest expense.
'Example Agency' estimates the impact of these changes as XXXXX' or 'Example Agency' will make a detailed assessment of the impact over the next 12 months.

- AASB 1058 *Income of Not- for- Profit Entities* (application date 1 Jan 2019)

This standard clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15 *Revenue from Contracts with Customers*. These standards supersede all the income recognition requirements relating to private sector not-for-profit entities, and the majority of income recognition requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. 'Example Agency" has commenced consideration of the new revenue recognition requirements and has yet to finalise its assessment of their impact. Possible future impacts apparent at this time include:

- Grants received to construct non-financial assets controlled by 'Example Agency' will be recognised as a liability and subsequently recognised as revenue progressively as 'Example Agency' satisfies its performance obligations under the terms of the grant. Currently, such grants are recognised as revenue upfront;
- Other grants currently recognised as revenue upfront may be eligible to be recognised as progressively as the associated performance obligations are satisfied, if the performance obligations are enforceable and sufficiently specific 'Example Agency' has not yet evaluated its grant arrangements with the Australian Government Department of Benevolence as to whether revenue from those grants could be deferred under the new requirements.
- Grants that are not enforceable and/or not sufficiently specific will continue to be recognised as revenue (no change to current treatment).

'Example Agency' estimates the impact of these changes as XXXXXX" or 'Example Agency will make a detailed assessment of the impact over the next 12 months."

- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* [AASB 1, 3, 4, 9 (December 2009) (December 2010), 101, 102, 112, 116, 132, 134, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053, 1056, Interpretation 12, 127, 132, 1031, 1038 & 1052] (application date 1 Jan 2018).

This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 15. 'Example Agency' is assessing the potential impact of AASB 15.

- AASB 2015-8 *Amendments to Australian Accounting Standards* – Effective date of AASB 15 (application date 1 January 2018)

This standard deferred the application date of AASB 15 *Revenue from Contracts with Customers* to 1 January 2018. AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for Profit Entities* further defers the application date of AASB 15 for not-for-profit entities until 1 January 2019. At this stage 'Example Agency' is not able to estimate the impact of AASB 15 on its financial statements. 'Example Agency will make a more detailed assessment of the impact over the next 12 months.

- AASB 2016-3 *Amendments to Australian Accounting Standards- Clarifications to AASB 15* (application date 1 Jan 2018)

Accounting Standards Issued But Yet to be Applied - Continued

This standard clarifies the existing requirements of ASSB 15. 'Example Agency' is not able to estimate the impact on its financial statements. 'Example Agency' will make a more detailed assessment of the impact over the next 12 months.

- AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-profit Entities* (application date 1 January 2018, which was the original mandatory effective date of AASB 15)

This standard amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018. At this stage 'Example Agency' is not able to estimate the impact of AASB 15 on its financial statements and will make a more detailed assessment of the impact over the next 12 months.

- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* [AASB 9 & 15] (application date 1 January 2019)

This standard inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those standards to particular transactions and other events. The amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (including taxes, rates and fines). The amendments to AASB 15 address the following aspects of accounting for contracts with customers: identifying a contract with a customer; identifying performance obligations; and allocating the transaction price to performance obligations.

At this stage 'Example Agency' is not able to estimate the impact of this implementation guidance on its financial statements and will make a more detailed assessment over the next 12 months.

- AASB 2017-5 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections* (application date 1 January 2018)

This standard defers the mandatory effective date (application date) of amendments to AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* that were originally made in AASB 2014-10 *Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2022 instead of 1 January 2018. There is no material impact on example agency.

APPENDIX C - COMMENTARY

The listing of standards and the associated commentary is to assist agencies to make the necessary disclosures. Agencies should make their own assessment on the standards listed, 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.

The Model does not contain a complete list of standards issued but not yet applicable. Instead it contains those standards not yet applicable which will most likely apply to most agencies (as at June 2018). This is because agencies do not have to include standards that would never apply to them (e.g. AASB 129 *Financial Reporting in Hyperinflationary Economies*). As such, most agencies will be able to simply use the list contained in the model note, disclosing only the standards that are expected to have a material impact on them or where they have not yet assessed the impact of a standard.

However, additional standards may be issued (which are applicable) between April and the end of June and therefore further standards may need to be included in the Notes. The Financial Framework Management and Insurance Branch will issue an updated Note disclosure in July to assist agencies in picking up additional standards issued in their Note disclosures. Agencies need to assess each new and amended standard issued but not yet applicable and disclose if their adoption is likely to have a significant impact. The 'Example Agency' impacts are indicative and agencies need to make their own assessment. Further guidance on this will be included in the Accounting Policy on *Treatment of AASB Standards issued which are not yet effective as at 30 June 2018* to be issued in July 2018. Agencies should review this policy in assessing the impact of standards that released but are not yet effective as at 30 June 2018 for disclosure in their 2017-18 financial statements.

For the information of agencies, the additional standards issued but not yet applicable (as at June 2018) which are not disclosed in the Model are:

- AASB 17 *Insurance Contracts* (application date 1 January 2021);
- AASB 1059 *Service Concession Arrangements: Grantors** (application date 1 January 2019);

*This standard will impact a small number of ACT Government agencies.

- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* [AASB2] (application date 1 January 2018);
- AASB 2016-6 *Amendments to Australian Accounting Standards- Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* [AASB 4] (application date 1 January 2018);
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments* [AASB 1, AASB 128 & AASB 140] (application date 1 Jan 2018 for for-profit entities and 1 Jan 2019 for not-for-profit entities);
- AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4* (application date 1 January 2018);
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments* [AASB 1] (application date 1 January 2019);
- AASB 2017-6 *Amendment to Australian Standards –Prepayment features with Negative Compensation* [AASB 9] application date 1 January 2019;
- AASB 2017-7 *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures* [AASB 128] (application date 1 January 2019);
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle* [AASB 3, AASB 11 , AASB 112 & AASB 123] (application date 1 January 2019);
- AASB 2018-2 *Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement* [AASB 119] (application date 1 January 2019);

- AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (application date 1 Jan 2018 for for-profit entities and 1 Jan 2019 for-not-for-profit entities); and
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments* (application date 1 Jan 2019).

Note, it is recommended that agencies review the above standards to ensure they do not apply to that agency.