

Explanatory Statement

Accounting Standard AASB 2020-3 ***Amendments to Australian Accounting Standards –*** ***Annual Improvements 2018-2020 and Other Amendments***

June 2020



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2020-3

This Standard makes amendments to the following Australian Accounting Standards:

- (a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);
- (b) AASB 3 *Business Combinations* (August 2015);
- (c) AASB 9 *Financial Instruments* (December 2014);
- (d) AASB 116 *Property, Plant and Equipment* (August 2015);
- (e) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015); and
- (f) AASB 141 *Agriculture* (August 2015).

These amendments arise from the issuance by the International Accounting Standards Board (IASB) in May 2020 of the following International Financial Reporting Standards:

- (a) *Annual Improvements to IFRS Standards 2018–2020*;
- (b) *Reference to the Conceptual Framework* (Amendments to IFRS 3);
- (c) *Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16); and
- (d) *Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37).

Marked-up Text

This Standard incorporates marked-up text to clearly identify some or all of the amendments made to the Standards. Those amendments are incorporated using clean text into the compilations of those Standards when they are prepared, based on the legal commencement date of the amendments.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2020-3

This Standard amends:

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

Application Date

AASB 2020-3 is applicable to annual periods beginning on or after 1 January 2022. Earlier application of the amendments to individual Standards is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued a number of Exposure Drafts contemporaneously with those issued by the IASB to propose the amendments now covered by this Standard. The AASB Exposure Drafts were as follows:

- (a) ED 280 *Property, Plant and Equipment – Proceeds before Intended Use* was issued in June 2017, for comment by 18 September 2017. ED 280 incorporated IASB Exposure Draft ED/2017/4 *Property, Plant and Equipment – Proceeds before Intended Use*. Three Australian stakeholders made a submission directly to the IASB on ED/2017/4, two of which were also submitted to the AASB. All submissions broadly supported the IASB's proposed amendments. The AASB did not make a submission to the IASB on ED/2017/4. The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments, addressing the suggestions raised by Australian respondents;
- (b) ED 287 *Onerous Contracts – Cost of Fulfilling a Contract* was issued in January 2019, for comment by 22 March 2019. ED 287 incorporated IASB Exposure Draft ED/2018/2 *Onerous Contracts – Cost of Fulfilling a Contract*. Three Australian stakeholders made a submission directly to the IASB on ED/2018/2, two of which were also submitted to the AASB. Two of the submissions expressed general support for the proposed amendments while commenting on the meaning of "economic benefits" for not-for-profit entities, an issue beyond the scope of this topic. One submission was not supportive of the amendments and was of the view that including allocated costs in the costs relating directly to a contract to provide goods or services would result in some viable contracts being treated as onerous contracts. The AASB did not make a submission to the IASB on ED/2018/2. The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments, including narrowing the reference to allocated costs;
- (c) ED 289 *Annual Improvements to Australian Accounting Standards 2018–2020* was issued in May 2019, for comment by 31 July 2019. ED 289 incorporated IASB Exposure Draft ED/2019/2 *Annual Improvements to IFRS Standards 2018–2020*. The AASB received one formal submission in respect of the proposals in ED 289, which supported the amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 41 *Agriculture*, but suggested extending the amendment in IFRS 9 *Financial Instruments* and clarifying (rather than removing) the treatment of lease incentives under IFRS 16 *Leases*. Three Australian stakeholders made a submission directly to the IASB on ED/2019/2, including the one submitted to the AASB. All submissions suggested clarification of the accounting for lease incentives under IFRS 16 *Leases*. The AASB did not make a submission to the IASB on ED/2019/2. The IASB analysed the feedback it received on the proposed amendments and decided not to adopt the suggestions raised in the Australian submissions; and
- (d) ED 290 *Reference to the Conceptual Framework* was issued in June 2019, for comment by 30 August 2019. ED 290 incorporated IASB Exposure Draft ED/2019/3 *Reference to the Conceptual Framework*. The AASB did not receive any formal submissions in respect of the proposals in ED 290. The AASB did not make a submission to the IASB on ED/2019/3. One Australian stakeholder made a submission directly to the IASB on ED/2019/3, supporting the IASB's intention to remove a residual reference to the old conceptual framework, but not the specific proposals. The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments, generally retaining its proposed approach.

The IASB set an effective date for each set of amendments of annual periods beginning on or after 1 January 2022. Earlier application of the amendments to individual Standards is permitted. The AASB considered and adopted the amendments made by the IASB in finalising AASB 2020-3. Since all the amendments have the same effective date, the AASB combined the four separate IFRS Standards into one Australian Accounting Standard, while maintaining the ability of entities to apply early the amendments to individual Standards.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2020-3 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*

Overview of the Accounting Standard

This Standard amends:

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

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.