New Australian Accounting Pronouncements

For 31 December 2023
Year-end reports

New and changed requirements

This publication provides an overview of the accounting pronouncements issued *as of 31 December 2023*, covering those that:

- Must be applied for the first time for 31 December 2023 year-ends
- May be applied early for 31 December 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 31 December 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.

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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)

AASB 2023-4 Amendments to AASs – International Tax Reform Pillar Two Model Rules: Tier 2 Disclosures

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

Following AASB 2023-2, this AASB amends AASB 1060 to require a Tier 2 entity to disclose:

- That it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
- Its current tax expense (income) related to Pillar Two income taxes.

This AASB also extends the exemption from the disclosure requirements of AASB 112 for entities applying AASB 1060. This ensures that Tier 2 entities need not comply with the new disclosure requirements in AASB 112 when preparing their Tier 2 financial statements.

[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)

[4] The standard applies to annual reporting periods beginning on or after 1 January 2023 that end on or after 30 September 2023

Insurance contracts

AASB 17 Insurance Contracts

Effective for annual reporting periods beginning on or after 1 January 2023[5]

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.

[5] 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.

Insurance contracts

AASB 17 does not apply to superannuation entities applying AASB 1056 *Superannuation Entities* and not-for-profit (NFP) public sector entities.[6]

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 a 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

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

- An amendment to the initial recognition requirements so that they do not depend on when contracts become onerous
- 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)

Accounting policies and estimates

AASB 2021-2[7] Amendments to AASB 7, AASB 101, AASB 134 Interim Financial Reporting and AASB Practice Statement 2 Making Materiality Judgements[8] – 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[9] 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.[10]

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.

[7] Refer to the Catalogue for the title and topics covered by this standard.
[8] A Practice Statement is non-mandatory guidance developed by the AASB.
[9] 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.
[10] 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[11].

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)

[11] 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[12]

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)

[12] 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[13]:

- 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 12 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.

[13] 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 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.

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.

Other topics

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
- 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)

AASB 2023-5 Amendments to AASs – Lack of Exchangeability

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

The AASB amends AASB 121 *The Effects of Changes in Foreign Exchange Rates* and AASB 1 *First-time Adoption of Australian Accounting Standards*, requiring entities to apply a consistent approach to determining:

- Whether a currency is exchangeable into another currency
- The spot exchange rate to use when it is not exchangeable.

The amendments create a new definition of exchangeable, which explains that a currency is exchangeable into another currency when:

- An entity can obtain the other currency within a time frame that allows for a normal administrative delay
- Through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations

The amendments also clarify that a currency is not exchangeable into another currency:

- If an entity can only obtain an insignificant amount of the other currency
- At the measurement date for the specified purpose

When a currency is not exchangeable:

- An entity shall estimate the spot exchange rate
- The estimate would reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions
- The entity must also disclose information on how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position and cash flows

The AASB also extends the exemption from the disclosure requirements of AASB 121 for entities applying AASB 1060. This ensures Tier 2 entities are not required to comply with the new disclosure requirements in AASB 121 when preparing their Tier 2 financial statements.

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[14] 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 July 2022 to 31 December 2023.

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.

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.

[14] 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

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.

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.

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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.

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.

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Lessor Forgiveness of 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.

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:

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- 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.

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.

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- 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.

Premium Receivable from an Intermediary (IFRS 17 and IFRS 9) – October 2023

The IFRIC discussed how an insurer should account for the premium receivable from an intermediary who arranges an insurance contract between the insurer and a policyholder.

In the fact pattern considered, the policyholder has paid premiums to the intermediary, upon which, the insurer is obliged to provide insurance services to the policyholder. The insurer, however, has not yet received the premiums from the intermediary.

The question asked is whether the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the "group of insurance contracts" under IFRS 17 ('View 1') or are a separate financial asset under IFRS 9 ('View 2').

The IFRIC observed that:

- IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and those to be collected through an intermediary.
- IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when those cash flows are settled in cash.

The IFRIC therefore concluded that an insurer should develop an accounting policy under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine when to remove the cash flows from the measurement of insurance contracts, either when the premiums are received from the intermediary (View 1) or when the policyholder has paid the premium (View 2).

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Homes and Home Loans Provided to Employees – October 2023

The IFRIC received a question on how an entity accounts for:

- Employee home ownership plans where the entity provides its employee with a house that it constructed and owns. Repayments are deducted from the employee's salary until the agreed sale price is fully repaid. The right to the house will be forfeited if the employee leaves within five years, in which case they recover the salary deductions. If the employee leaves after five years, they can choose to keep the house and repay the outstanding balance immediately.
- Employee home loans where the entity provides a loan to its employee to buy a house which the entity does not own. The loan is typically at a below-market rate of interest or interest free and is repaid through salary deductions. Upon termination of employment, the outstanding balance becomes repayable.

Based on evidence gathered, the IFRIC concluded that the matters above do not have widespread effect and decided not to add a standing-setting project to the work plan.

Guarantee over a Derivative Contract (IFRS 9) – October 2023

The IFRIC received a question about whether, in applying IFRS 9, an entity accounts for a guarantee it issued over a derivative contract as a financial guarantee or as a derivative. Such guarantee reimburses the holder, who is a party to a derivative contract, for the actual loss incurred, up to a close-out amount, in an event of default of the other party to the derivative contract. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative immediately prior to default.

Based on evidence gathered, the IFRIC concluded that the matter does not have widespread effect and it does not have (nor is it expected to have) a material effect on those affected and decided not to add a standing-setting project to the work plan.

Catalogue of new accounting pronouncements issued as of 31 December 2023

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AASB 2021-2 *Amendments to AASs – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023	
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AASB 2022-8 *Amendments to AASs – Insurance Contracts – Consequential Amendments*	1 January 2023	14
AASB 2023-2 *Amendments to AASB 112 – International Tax Reform Pillar Two Model Rules*[29]	23 May 2023[17]	5
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AASB 2023-4 *Amendments to Australian Accounting Standards – International Tax Reform - Pillar Two Model Rules: Tier 2 Disclosures*	1 January 2023[18]	5

[15] For full access to Australian Accounting Standards please visit https://www.aasb.gov.au/.
[16] Effective for annual reporting periods beginning on or after this date, unless separately noted.
[17] The exception added to AASB 112 applies retrospectively and immediately. Disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023
[18] The standard applies to annual reporting periods beginning on or after 1 January 2023 that end on or after 30 September 2023

Catalogue of new accounting pronouncements issued as of 31 December 2023

New pronouncements[19] that may be applied for 31 December 2023 year-ends	Effective date[20]	Page
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AASB 2014-10 *Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[21]	1 January 2025	3
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AASB 2022-9 *Amendments to AASs – Insurance Contracts in the Public Sector*	1 July 2026	7
AASB 2022-10 *Amendments to AASs – Fair Value Measurement of Non-financial Assets of Not-for-Profit Public Sector Entities*	1 January 2024	14
AASB 2023-1 *Amendments to AASs – Amendments to AASB 107 and AASB 7 – Disclosures of Supplier Finance Arrangements*	1 January 2024	15
AASB 2023-3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2*	1 January 2024	13
Newly issued from 1 July 2023 to 31 December 2023		
AASB 2023-5 *Amendments to Australian Accounting Standards – Lack of Exchangeability*	1 January 2025	15

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

[21] 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.

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