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ACCOUNTING NEWS

NO MORE OPERATING LEASES

THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) RECENTLY ISSUED EXPOSURE DRAFT 2013/06 *LEASES* (THE ED) FOR PUBLIC COMMENT (ED 242 IN AUSTRALIA), WHICH SETS OUT PROPOSED CHANGES TO THE ACCOUNTING FOR LEASES.

The ED has been developed through a joint project with the US Financial Accounting Standards Board (FASB). This is their second attempt, the first being ED 2010/09 Leases in 2010 (ED 202 in Australia).

AASB 117 *LEASES* ***Operating and finance leases*** → **ED 202 *LEASES*** → **ED 242 *LEASES***

Current position – AASB 117 *Leases*

Both IFRS and US GAAP currently require leases to be classified by lessees as either **finance leases** or **operating leases**, with only finance leases being recognised on the balance sheet.

These models have been criticised for failing to meet the needs of users of financial statements as they often omit information regarding the rights and obligations held by lessees and lessors. Typically, these rights and obligations meet the definitions of assets and liabilities under both the IASB and FASB conceptual frameworks.

> A report released by the US Securities and Exchange Commission (SEC) in 2005 estimated that the extent of off-balance sheet operating lease commitments, for SEC registrants alone, totalled US$1.25 trillion.

In order to address these concerns, the IASB and the FASB initiated a joint project to develop a new approach to lease accounting that would result in **all assets and liabilities arising under lease contracts being recognised on an entity's balance sheet.**

The original proposals – ED 202 *Leases*

The IASB's and FASB's first attempt at revising lease accounting and introduce a right-of-use model proved controversial. Some of the main impacts of ED 202 included:

- All leased assets to be capitalised on the balance sheet as a 'right-of-use' asset
- The concept of a rent expense would instead be replaced by an amortisation charge in respect of the right-of-use asset and a finance charge associated with the lease liability
- All leases would have a front loaded expense because interest costs would unwind using a constant periodic rate of return
- Contingent rentals (e.g. turnover rentals) would be included in the initial determination of the lease liability (under AASB 117 these are expensed as incurred)
- The lease term would be the **longest possible lease term that is more likely than not to occur.**

IN THIS EDITION

In this edition we look at the new leasing exposure draft which proposes scrapping the concept of operating leases and instead proposes that all leases be capitalised on the balance sheet. We remind those entities with exploration and mining assets to revisit their impairment models and assumptions for exploration and mining assets in light of the continued reduction in commodity prices. We also look at the status of special purpose financial statements and whether Australian investment entities will need to provide additional consolidation disclosures compared with their international equivalents.

The Boards (IASB and FASB) received almost 800 comment letters and initiated extensive constituent outreach through workshops, questionnaires, and targeted round table meetings.

New proposals – ED 242

During their redeliberations, the Boards made significant changes to the proposals set out in ED 202 and therefore decided to re-expose the results of their redeliberations as ED 2013/06 (ED 242 in Australia). Comments are due to the AASB by 14 August 2013 and to the IASB by 13 September 2013.

'A lease is a **contract** that conveys the right to use an asset (the **underlying asset**) for a period of time in exchange for consideration.'

Some of the key proposals included in the ED are discussed below.

Use of an identified asset

In order for a lease to exist, fulfilment of the lease contract must depend on the **use of an identified asset.** Fulfilment of a contract does not depend on use of an identified asset if the supplier has the **substantive right** to substitute the assets during the lease contract. A supplier would have a **substantive right** to substitute the asset if:

- They can substitute the asset without the lessee's consent, and
- There are no barriers that would prevent them from substituting the asset (e.g. moving costs, lack of availability of alternative assets etc.).

We can already see a potential loophole to allow contracts not to be classified as leases because any contract where fulfilment does not depend on the use of an **identified** asset will not be treated as a lease, and therefore no right-of-use asset will be capitalised on the balance sheet. Such assets could include movable items such as motor vehicles, trucks, earth movers etc.

It is unlikely though that computers and photocopiers could be substituted during the contract period because of reconfiguring costs. These will therefore continue to be treated as leases.

Currently, we treat many leases of assets that give us access to specific band-width as operating leases. Going forward, such leases (e.g. for a portion of a fibre-optic cable that is not for substantially all the cable capacity) will not be treated as leases because they are not an identified asset that is physically distinct from the remaining capacity of the asset. Instead they will be treated as executory contracts, i.e. expense as you go.

Other examples of arrangements that will likely not be classified as leases are access to the iCloud and 'rental' of a percentage of a pipeline or an electricity grid.

Lease term

Amongst other things, ED 202 proposed that the lease term include the **longest possible lease term that is more likely than not to occur.**

ED 242 now only proposes that the **lease term** is the non-cancellable period of the lease, together with periods covered by options to:

- Extend the lease if the lessee has a significant economic incentive to exercise that option, and
- Terminate the lease if the lessee has a significant economic incentive not to exercise that option.

To apply this requirement we will need to consider a variety of factors in order to determine whether there is a significant economic incentive to exercise, or not to exercise.

Two types of leases (a 'dual lease model')

A major criticism/concern of the proposed lease accounting in ED 202 was the front loading of the expense relating to using a leased asset. This criticism has in part been addressed in ED 242 by introducing the dual lease approach to recognising leases. For leases that do not consume more than an insignificant amount of the asset's economic benefit (Type B leases) the method of amortising the right-of-use asset is 'adjusted' to give a straight line expense, taking into account both the finance charge inherent in the lease, and the amortisation charge of the right-of-use asset. The ED strongly weights the argument that leases of property will be classified as Type B leases and therefore will incur a straight line lease expense.

ED 242 proposes a dual lease classification approach for both lessees and lessors. These are:

- Type A leases – consumes some of the economic benefit of the asset - usually equipment and vehicle leases
- Type B leases – consumes an **<u>insignificant part</u>** of the total economic life of the underlying asset - usually property leases.

If the underlying asset is **NOT PROPERTY**, a lease is classified as a **Type A** lease unless:

- The lease term is for an **<u>insignificant part</u>** of the total economic life of the underlying asset, or
- The present value of the lease payments is **<u>insignificant</u>** relative to the fair value of the underlying asset at the commencement date.

If the underlying asset **IS PROPERTY**, a lease is classified as a **Type B** lease unless:

- The lease term is for the **<u>major part</u>** of the remaining economic life of the underlying asset, or
- The present value of the lease payments accounts for **<u>substantially all</u>** of the fair value of the underlying asset at the commencement date.

The ED provides no 'bright line' guidance as to what is meant by 'insignificant', 'major part' and 'substantially all'. The Examples to the ED appear to only demonstrate more extreme positions, and give little insight as to how to treat borderline cases.

Example Type A lease – Equipment lease classification

(Extracted from Example 12 of the Illustrative Examples to ED 242)

Facts are as follows:

- Two-year lease of an item of equipment
- Total economic life of 12 years
- Lease payments are $9,000 per year
- Present value of lease payments is S16,700 calculated using the rate the lessor charges the lessee
- Fair value of the equipment at the commencement date is $60,000.

The lessee determines that the lease is a Type A lease because:

- Underlying asset is not property
- Lease term is for more than an insignificant part of the total economic life of the equipment (i.e. 2/12 years is considered more than insignificant in this example)
- Present value of the lease payments is more than insignificant relative to the fair value of the equipment at the commencement date (i.e. $9,000/$16,700).

Example Type B lease – Commercial property lease classification

(Extracted from Example 13 of the Illustrative Examples to ED 242)

The following facts are relevant:

- 15-year lease of an office building
- Remaining economic life of 40 years at the commencement date
- Lease payments are $30,000 per year
- Present value of lease payments is $300,000, calculated using the lessee's incremental borrowing rate (i.e. the rate the lessor charges the lessee is not readily determinable to the lessee)
- Fair value of the property at the commencement date is $400,000.

The lessee determines that the lease is a Type B lease because:

- Underlying asset is property
- Lease term is not for the major part of the remaining economic life of the property (i.e. 15/40)
- Present value of the lease payments does not account for substantially <u>all</u> of the fair value of the property (i.e. $300,000/$400,00).

Lessee Accounting

For both Type A and Type B leases, the ED proposes that the lessee will recognise in the balance sheet a:

- Right-of-use asset
- Lease liability.

The **lease liability** is equal to the present value of the **lease payments** discounted using the rate the lessor charges the lessee (or if unknown, the lessee's incremental borrowing rate), and includes:

- Fixed payments, less any lease incentives receivable from the lessor
- Variable lease payments that depend on an index or a rate (e.g. Consumer Price Index, market interest rate etc.)
- Variable lease payments that are in-substance fixed payments
- Amounts expected to be payable under lessee residual value guarantees
- Exercise price of purchase options
- Penalties to terminate options if cash flows assume termination.

Subsequently, the lease liability is:

- Increased: to reflect the unwinding of the discount on the lease liability
- Reduced: to reflect the lease payments made during the period.

The **right-of-use asset** includes all of the following:

- The amount of the initial lease liability (see above)
- Lease payments made to the lessor at or before the commencement date, less any lease incentives received from the lessor
- Any **initial direct costs** incurred by the lessee.

In subsequent periods, the right-of-use asset is measured at cost less any accumulated amortisation and any accumulated impairment losses.

Lessee accounting – amortisation of right-of-use asset

The right-of-use asset in a Type A lease is amortised on a straight-line basis (unless another systematic basis is more representative), from the commencement date to the earlier of either:

- The end of the useful life of the right-of-use asset
- The end of the lease term.

However, if there is significant economic incentive to exercise a purchase option, the right-of-use asset is amortised to the **end of the useful life of the underlying asset**.

The amortisation expense for a right-of-use asset in a Type B lease is calculated as the difference between:

- The periodic lease cost
- The periodic unwinding of the discount on the lease liability.

Essentially, the amortisation charge is the balancing figure that ensures that the overall charge to profit or loss is consistent each period.

Profit or loss impacts will be different for Type A and Type B leases:

- Type A leases result in a front-end loaded interest expense and a straight line or similar amortisation expense in profit or loss
- Type B leases will result in one combined expense in profit or loss, being the interest cost and the 'balancing number' for amortisation as described above.

Lessee accounting – alternative measurement bases

If the right-of-use asset relates to property that meets the definition of investment property in accordance with IAS 40 *Investment Property* and the lessee subsequently measures the investment property using the fair value model, the right-of-use asset relating to the property is required to be measured in accordance with the fair value model in IAS 40.

If the right-of-use asset relates to a class of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and the lessee subsequently measures that class of property, plant and equipment using the revaluation model, the right-of-use asset relating to the class of property, plant and equipment may be measured instead at a revalued amount in accordance with IAS 16.

Lessor accounting

The proposed principles for lessor accounting for Type B leases are asymmetrical between lessees and lessors, specifically:

- The lessor continues to recognise the underlying asset whereas the lessee would also recognise the right-of-use asset (i.e. increasing the global balance sheet)
- Lessors do not recognise a lease receivable whereas the lessee would recognise a lease liability
- Income is recognised on a straight line basis or a more representative basis by lessors whereas lessees must recognise a straight-line cost.

For Type A leases, lessees recognise a right-of-use asset whereas the lessor derecognises the full value of the underlying asset but also records a residual asset which is the right to the underlying asset that the lessor retains. Interest is also unwound on this residual asset as income so that its value grosses up over time.

Short-term leases

Note that for short term leases, whose maximum possible term, including any options to extend, is for a period of twelve months or less, the ED proposes an accounting policy choice to either:

- Apply the accounting policies described above for Type A and Type B leases, or
- Recognise lease payments in profit or loss (on a straight line basis for lessees and a straight line or more representative basis for lessors).

Sale and leaseback transactions

The accounting treatment for sale and leaseback transactions will depend on whether the transfer meets the criteria for a sale under proposed IFRS X *Revenue from Contracts with Customers*.

If the transfer is a sale, the transferor would derecognise the asset and account for the leaseback transaction under the ED 242 proposals for lessees. The transferee would recognise the purchase of the asset and would account for the lease under the ED 242 proposals for lessors.

If the transfer is not a sale, the transferor does not derecognise the asset and continues to show the asset on its balance sheet. Cash received is shown as a financial liability. The transferee would not recognise the transferred asset and amounts paid out are recognised as a receivable.

Summary

These proposals are likely to impact most entities as leasing/rental arrangements are both a common form of financing and give lessees efficiency in managing assets and associated services which they themselves are not experts in sourcing or managing. Unless you have very short-term rental agreements (less than 12 months), these proposals are likely to mean more debt on your balance sheet which could have a spill over effect to bank covenants etc. It may also cause a significant administrative burden having to create 'right-of-use' asset registers and calculate the finance charge in respect of each leased asset. The proposals could significantly change the business model of both lessees and the major leasing companies.

ARE YOUR EXPLORATION AND MINING ASSETS IMPAIRED?

AS THE 30 JUNE 2013 REPORTING SEASON GETS INTO FULL SWING, PREPARERS OF FINANCIAL STATEMENTS NEED TO TAKE A CAREFUL LOOK AT THE CARRYING VALUES OF MINING AND EXPLORATION ASSETS AND EVALUATE WHETHER IMPAIRMENT WRITE-DOWNS WILL BE REQUIRED IN LIGHT OF LOWER OVERALL COMMODITY PRICES.

Commodity prices, in general, are lower than this time last year.

Metals
Prices for some metals such as lead and tin have been fairly volatile during the past 12 months, but at the time of writing this article, were trading at higher prices than twelve months prior. However, the vast majority of metal prices are likely to end the financial year lower, and in some cases, substantially lower, than last year. For example, at the time of writing, non-ferrous metals such as aluminium, copper, and nickel, as well as precious metals such as gold and silver and uranium were all trading at prices lower than June 2012. Although zinc is currently trading at similar levels to June 2012, prices are significantly down from December 2012 levels. This means that listed entities reporting at 31 December 2012 could have used discounted cash flow models to justify carrying values that are based on these high commodity prices. Such entities should note that cash flow forecasts will need to be adjusted to reflect lower commodity prices for June 2013 impairment tests.

Energy
Coal prices have been reasonably volatile during the past 12 months and at the time of writing, are consistent with 30 June 2012 prices. However, December 2012 prices were significantly higher than current prices, which could impact recoverable amount discounted cash flow models of entities based on December 2012 pricing.

Exploration assets
AASB 6 *Exploration for and Evaluation of Mineral Resources* only requires that exploration assets be assessed for impairment when facts and circumstances suggest that the carrying amount of the exploration and evaluation asset may exceed its recoverable amount.

Paragraph 20 includes a non-exhaustive list of circumstances when an entity should test exploration assets for impairment. These include:

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.

Paragraph 20 also requires that we assess impairment when sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. This could occur, for example, because of decreasing commodity prices.

When considering impairment indicators for exploration assets, entities therefore must consider the economic/commercial viability of these assets in light of decreased commodity prices. This is particularly important where exploration assets have a resource defined at some level but which would not be economically viable at current prices.

We do not consider it sufficient to assume that exploration is continuing and therefore not consider impairment under AASB 6, paragraph 20(c). Entities need to consider whether they have sufficient funds and the ability to raise funds in order to continue exploration and evaluation

(E&E) activity, and whether the current commodity prices mean they are likely to cease E&E activity on certain areas of interest.

Mining assets
Once exploration entities move out of the exploration phase, the related assets are reclassified as development or mining assets which must follow the normal impairment principles included in AASB 136 *Impairment of Assets*. As mining assets have finite lives, they only need to be tested for impairment under paragraph 9 if there are indicators of impairment.

One such indicator could be a decline in the relevant price of the commodity being mined. AASB 136 lists one of the indicators of impairment from external sources of information as being significant changes with an adverse effect on the entity that has taken place during the period such as changes in the market.

Entities mining commodities that have experienced a decline in prices therefore need to test for impairment for 30 June 2013 financial statements, and adjust cash flow models to reflect reduced selling prices.

Similarly a number of extractive entities have experienced a significant fall in their market capitalisation. If an entity's market capitalisation is below its recorded net asset position, this represents an impairment trigger under AASB 136.

Foreign exchange rates
With most commodities trading in US dollars, any fluctuations in the Australian dollar: US dollar exchange rate can have a significant effect on cash flows of mining entities and forecasts for exploration entities about to enter into production. Given recent volatility between the Australian and US dollar, entities that have not entered into forward contracts to fix selling prices in Australian dollars will also need to relook at discounted cash flow models for impairment testing at 30 June 2013 to determine whether exchange rates used are still reasonable.

Any drop in the Australia dollar: US dollar exchange rate below parity for entities that have not forward covered their sales could have some compensatory effect on entities otherwise suffering declining commodity prices.

Summary
Recent volatility in commodity prices, resulting impact on availability of funds and exchange rates mean that impairment models will need to be revisited for 30 June 2013 financial statements.

Given the general downward trend on many commodities, we also do not believe that explorers can automatically avoid considering impairment on the basis that they are still in the exploration phase. We therefore recommend that explorers in downward cycles consider whether they require an impairment model and are required to test for impairment.

We also remind entities in the development and production phases experiencing downward selling prices to reconsider assumptions used in impairment models to ensure that they reflect current pricing data and exchange rates.

STATUS OF SPECIAL PURPOSE FINANCIAL STATEMENTS

ED 192 *Revised Differential Reporting Framework*

In June 2010, the Australian Accounting Standards Board (AASB) completed Stage one of their differential reporting project by issuing AASB 1053 *Application of Tiers of Australian Accounting Standards* which permits a reduced level of disclosure for Tier 2 entities preparing general purpose financial statements.

The AASB initially proposed in ED 192 *Revised Differential Reporting Framework* that all entities lodging financial statements with ASIC under Chapter 2M.3 of the Corporations Act would be required to produce general purpose financial statements. This would have meant a significant number of additional disclosures for entities in groups currently lodging special purpose financial statements.

After receiving a higher number of responses from interested parties than usual, the AASB delayed their decision on the fate of special purpose financial statements (now known as Stage two of the differential reporting project) until more empirical research had been conducted.

Research results

At the time of writing, a significant amount of research has been undertaken on the numbers of entities lodging special purpose financial statements with the Australian Securities and Investments Commission (ASIC), including whether their assessment as special purpose was appropriate and whether they complied with all measurement and recognition requirements in Australian Accounting Standards.

The results indicate that:

- The vast majority of entities are lodging special purpose financial statements (about 80 per cent of entities)
- Recognition and measurement requirements are not rigorously followed in special purpose financial statements
- The quality of accrual accounting is lower in special purpose financial statements than general purpose financial statements.

In view of the large number of entities lodging special purpose financial statements with ASIC, the AASB are of the view that the reporting entity concept in SAC 1 *Definition of the Reporting Entity* has not been applied correctly.

The future

At their April 2013 meeting, the AASB discussed the future role of the reporting entity concept. There was general agreement that:

- They (AASB) would use the reporting entity concept as a basis for their own deliberations in setting general purpose financial reporting requirements
- Other regulators could use the reporting entity concept to identify entities that should be required to prepare and lodge general purpose financial statements
- They would change their application focus of Australian Accounting Standards from the reporting entity concept to that of general purpose financial statements.

There was also general agreement amongst the board members that:

- The AASB's mandate is to set accounting standards for preparing general purpose financial statements under Tier 1 or Tier 2, and
- Setting requirements for special purpose financial statements is a matter to be agreed between preparers and users.

Implementation roadmap

The AASB noted in their April meeting that the proposal in ED 192 to scrap special purpose financial statements for entities lodging financial statements needs to be preceded by work done by ASIC, Treasury and the Australian Charities and Not-for-profits Commission (ACNC), so we can expect special purpose financial statements for entities lodging with ASIC to be around for at least the next two years.

NEW BDO PUBLICATIONS

The Audit section of our website includes a range of publications on IFRS issues. Look for the 'Global IFRS Resources' link which includes resources such as:

- IFRS at a glance – 'one page' and short summaries of all IFRS standards
- Need to Knows – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Latest additions include Financial Instruments: Expected Credit Losses (Exposure Draft) and IFRS 10 Consolidated Financial Statements
- IFRS in Practice – practical information about the application of key aspects of IFRS, including industry specific guidance.
- Comment letters on IFRS Standard Setting - includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients. Latest comment letters include IASB ED 2012-07 Acquisition of an Interest in a Joint Operation, IASB ED 2012-06 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, IASB 2012-05 Clarification of Acceptable Methods of Depreciation and Amortisation and IASB ED 2012-02 Novation of Derivatives and Continuation of Hedge Accounting.

WILL AUSTRALIAN INVESTMENT ENTITIES BE REQUIRED TO DISCLOSE CONSOLIDATED FINANCIAL STATEMENTS?

Investment Entities standard

In October 2012, the International Accounting Standards Board (IASB) issued the international standard called *Investment Entities* which requires that investment entities measure their controlled investments at fair value through profit or loss, rather than consolidating them under IFRS 10 *Consolidated Financial Statements*. A summary of the requirements of this standard is included in November 2012 Accounting News.

ED 233 *Australian Additional Disclosures – Investment Entities*

The Australian Accounting Standards Board (AASB) decided that Australian investors require more information that their international counterparts and our March 2013 Accounting News summarised the AASB proposals which were included in ED 233 *Australian Additional Disclosures – Investment Entities*. ED 233 proposed that a consolidation would still need to be performed by Australian investment entities, this consolidated information to be shown in the notes to the financial statements, rather than on the face.

Comments received

The AASB received 29 submissions on ED 233, of which two were in favour of the additional disclosures (one went so far as to say that even further disclosures were needed than those proposed in ED 233), with the remaining 27 being against the proposals and recommending to adopt the international *Investment Entities* standard unchanged.

The AASB staff therefore put forward three alternative courses of action to the AASB board members at their June 2013 meeting, being:

- Option one - Adopt the IASB amendments without any additional Australian disclosures
- Option two – Adopt the IASB amendments with Australian additional disclosures as proposed in ED 233
- Option three – Adopt the IASB amendments with additional Australian disclosures, but which are fewer than those proposed in ED 233.

In a memorandum to AASB board members (May 2013) included with the June 2013 board meeting papers, AASB staff recommended the adoption of the international *Investment Entities* standard without additional Australian disclosures, but said that if the board consider additional Australian disclosures to be necessary that Option three above be adopted, i.e. only require disclosure of an unconsolidated subsidiary's total assets, total liabilities and total comprehensive income, rather than a line by line consolidation.

BDO comment

BDO believe that option one should be adopted. While option three offers 'reduced disclosure', it still requires the investment entity to prepare consolidated numbers which would still result in them incurring significantly more costs than their overseas counterparts.

Where to from here?

The Board considered the 29 submissions received but has **not reached a final decision** on how it will proceed because **nine votes are required** and a tentative vote of 12 board members (2 were absent) showed that **eight members** would vote in favour of adopting the international *Investment Entities* standard with no additional disclosures.

The board tentatively decided that staff should prepare a pre-ballot draft of an amending standard to incorporate the *Investment Entities* exception from consolidation into AASB 10 *Consolidated Financial Statements*, without additional disclosures but the final outcome will depend on whether one of the absent board members votes in favour of adopting the international standard unchanged.

We will update you on further progress of the *Investment Entities* standard in future newsletters.

COMMENTS SOUGHT ON EXPOSURE DRAFTS

At BDO, we provide comments locally to the Australian Accounting Standards Board (AASB) and internationally to the International Accounting Standards Board (IASB). We welcome any client comments on exposure drafts that are currently available for comment. If you would like to provide any comments please contact Wayne Basford at wayne.basford@bdo.com.au.

DOCUMENT	PROPOSALS	COMMENTS DUE TO AASB BY	COMMENTS DUE TO IASB BY
ED 237 *Financial Instruments: Expected Credit Losses*	Proposes to replace the impairment requirements in AASB 139 *Financial Instruments: Recognition and Measurement*, which are based on an incurred loss model, with a forward looking expected loss model.	10 May 2013	5 July 2013
ED 238 *Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*	Proposes to add an Appendix to AASB 10 *Consolidated Financial Statements* (AASB 10) to explain and illustrate how the principles of AASB 10 apply to not-for-profit entities. In particular, the aim of the additional guidance is to address cases where a for-profit perspective does not readily translate to a not-for-profit perspective.	30 June 2013	N/A
ED 239 *Defined Benefit Plans: Employee Contributions* Proposed amendments to AASB 119	Proposes that employee or third party contributions set out in the formal terms of a defined benefit plan may be recognised as a reduction in the service cost in the same period in which they are payable if, and only if, they are linked solely to the employee's service rendered in that period. An example would be contributions that are a fixed percentage of an employee's salary. Where the contribution depends on the employee's number of years of service to the employer then it would not be linked solely to the employee's service rendered in that period, and therefore not recognised as a reduction in the current service cost.	24 June 2013	25 July 2013
ED 240 Regulatory Deferral Accounts	Proposes to permit an entity that adopts IFRS to continue to use its previous GAAP accounting policies, as accepted in their local jurisdiction, for recognition, measurement and impairment of regulatory deferral account balances without specifically considering the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Proposals would also require recognised deferral account balances to be presented as separate line items in statement of profit or loss and other comprehensive income.	5 August 2013	4 September 2013
ED 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*	Proposes to remove the consolidation requirements from AASB 1038 *Life Insurance Contracts*, including the explicit requirement for a life insurer to consolidate policyholders' interests. Proposes that AASB 10 *Consolidated Financial Statements* will be the sole source of consolidation requirements for life insurers.	7 August 2013	N/A
ED 242 *Leases*	Proposes that all leases of more than 12 months be recognised in the statement of financial position as right-of-use assets with a corresponding lease liability. Proposes two types of leased assets, Type A (typically equipment and vehicle leases) and Type B (typically property leases) that should be accounted for as follows: • Type A - similar manner to 'finance leases', i.e. amortisation of the right-of-use asset and an interest expense • Type B – straight line expense.	14 August 2013	13 September 2013

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