



Subject: Minutes of the 125th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 25 July 2012 from 9.00 a.m. to 5.42 p.m.
Thursday 26 July 2012 from 8.30 a.m. to 12.50 p.m.

All agenda items except items 1 and 20 were discussed in public.

Attendance

Members
Kevin Stevenson (Chairman)
Ian McPhee (Deputy Chair) (except day 1, 4:15 to 4:45 pm)
Kris Peach (Deputy Chair)
Victor Clarke (except day 1 after 4:15 pm)
Anna Crawford
Sue Highland
Liane Papaelias
Carmen Ridley
Brett Rix
Roger Sexton (except day 1, 4:30 to 4:35 pm)
Robert Williams

Apologies
Michele Embling
Jayne Godfrey
John O'Grady

In Attendance:
Staff
Clark Anstis (in part)
Natalie Batsakis (in part)
Peter Batten
Nikole Gyles (in part)
Robert Keys
Gunter Leng (in part)
Sue Lightfoot (in part)
Christina Ng (in part)
Shu In Oei (in part)
Jim Paul (in part)
Angus Thomson
Daisy Yang (in part)

Other
Patricia McBride (NZASB Observer)



Agenda, Declaration of Interests and Chairman's Report

Agenda item 17 was subsumed within item 4 at this meeting.

Agenda Item 1

Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board. No such declaration was made.

Chairman's Report

The Chair advised that he had agreed to a leave of absence for Jayne Godfrey and that she was likely to be absent from meetings for the remainder of this calendar year, although available for out-of-session voting on documents.

He noted that Patricia MacBride was attending as a New Zealand observer in the absence of Michelle Embling.

He advised that progress is being made on the AASB strategic plan. He thanked members for their useful suggestions on the initial draft, mainly relating to presentation. These were being progressed, and after final review by the members the plan will be submitted to the FRC.

IASB

The Chair noted that the IASB may generate a heavy workload towards the end of the calendar year, and that steps were being taken to make staff resources available. Recent joint developments by the IASB/FASB were noted. A press release issued by FASB following the July meeting on financial instruments impairment is available as AP 3.15. The Chair also noted the IASB has requested nominations for a Consultative Group on Methodology for Fieldwork and Effects Analyses.

Asian-Oceanian Standard-Setters Group (AOSSG)

Kris Peach is involved with planning for the annual conference, including contingency plans for any rearrangement. The Chair also noted upcoming teleconferences, including one with other regional groups and significant standard setters to discuss the relationships amongst regional groups and with the IASB.

FRC

The Chair noted a paper titled *Managing Complexity in Financial Reporting* prepared by the relevant FRC task force which was included as AP 3.14.

IFASS (formerly NSS)

The Chair and Technical Director mentioned the agenda for the next meeting to be held in October 2012 and noted that they will make a presentation at the meeting on the results of research into the initial accounting



for intangible assets acquired in a business combination. The next meeting of the WSS and regional bodies was also noted.

Involvement with Other Bodies

Staff continue to liaise with the Australian Charities and Not-for-profits Commission in the context of financial reporting.

Other

The Chair advised that a Staff paper on emitter accounting for a carbon tax was now available on the AASB website, although one paragraph may need further clarification relating to whether the payment process is similar to that for provisional tax. Preparation of the AASB's annual report was underway. The Board noted the complexity of drafting amending standards giving effect to the deferral of the effective date of AASB 9 *Financial Instruments*, but stressed the importance of them being finalised as soon as possible. The Board also noted staff presentations and recent and forthcoming staff movements and achievements.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for Jayne Godfrey, Michelle Embling and John O'Grady.

Minutes

The Board approved the minutes of the one hundred and twenty-fourth meeting held on 6-7 June 2012. There were no matters arising not otherwise addressed in the agenda.

Approvals Out of Session

The Board had before it a Voting Summary (Board only) (agenda paper 2.2, tabled). The Board noted its unanimous approval of the following standards:

- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*;
- AASB 2012-4 *Amendments to Australian Accounting Standards – Government Loans*;
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*; and
- AASB 1048 *Interpretation of Standards* (revised).

The Board also noted its approval of the following Consultation documents issued under its delegated authority for the Chairman to issue IASB consultation documents where there is no significant additional Australian material:



- ED 225 *Annual Improvements to IFRSs 2010—2012 Cycle*, which is open for comment to the AASB until 13 August 2012; and
- ITC 27 *Request for Comment on IASB Request for Information on Post-implementation Review: IFRS 8 Operating Segments*, which is open for comment to the AASB until 11 October 2012.

Other Business

Agenda Item 3

The Board had before it:

- a memorandum from Gunter Leng, Peter Batten and Robert Keys dated 10 July 2012 re: AASB Work Program (agenda paper 3.1);
- Summary of AASB Work Program (June 2012) (agenda paper 3.1.1);
- Detailed AASB Work Program (June 2012) (agenda paper 3.1.2);
- Consultation Submissions Pipeline Report (May 2012) [Board only] (agenda paper 3.1.3);
- a memorandum from, Peter Batten dated 10 July 2012 re Sub-committee membership dated 10 July 2012 [Board only] (agenda paper 3.2.1);
- AASB Sub-committee membership listing as at 30 June 2012 [Board only] (agenda paper 3.2.2);
- Letter from AASB Chairman and CEO to Technical Director International Public Sector Accounting Standards Board dated 8 June 2012 re IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports* (agenda paper 3.3);
- Letter from AASB Chairman and CEO to Grant Hehir, Chair, Heads of Treasuries Accounting and Reporting Advisory Committee dated 15 June 2012 re AASB project on Income from Transactions of Not-for-Profit Entities (agenda paper 3.4);
- Australian Securities & Investments Commission Media Release dated Tuesday 26 June 2012 [12-140MR] re *ASIC'S Areas of Focus for 30 June 2012 Financial Reports* (agenda paper 3.5);
- IASB *Update* June 2012 (agenda paper 3.6);
- AASB Staff Comments, ABS Update of the *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (GFS CSM), (2 July 2012) (agenda paper 3.7);
- IFRS Advisory Council Meeting, 18 -19 June 2012, Notes prepared by Judith Downes – [CONFIDENTIAL] (agenda paper 3.8);
- Letter from AASB Chairman and CEO to the Chairman, The Monitoring Group dated 4 July 2012 re Monitoring Group Consultation Paper "Public consultation on the governance (with special focus on organisational aspects, funding, composition and the roles) of the Monitoring Group, the PIOB and the standard setting boards and Compliance Advisory Panel operating under the auspices of IFAC" (agenda paper 3.9);



- (n) Letter from AASB Research Director to Darrel Porter, Deputy Executive Director, Office of Best Practice Regulation dated 9 July 2012 re Compliance with best practice regulation processes – 2011-2012 (agenda paper 3.10);
- (o) Preliminary Assessment of forthcoming Standards – July 2012, Incorporating Annual Regulatory Plan (agenda paper 3.11);
- (p) Communications Report dated June/July 2012 [Board only] (agenda paper 3.12, tabled);
- (q) National Water Standards Board Update, 29 June 2012 (agenda paper 3.13, tabled);
- (r) FRC Complexity Task Force report (29 May 2012) (agenda paper 3.14, tabled); and
- (s) FASB press release re impairment (July 2012) (agenda paper 3.15, tabled).

The Board noted the agenda papers.

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum re Interpretations from Nikole Gyles, Gunter Leng and Sue Lightfoot dated 10 July 2012 (agenda paper 4.1);
- (b) a tabled agenda paper – AASB July 2012 Staff Summary of IFRS Interpretations Committee (agenda paper 4.2, tabled);
- (c) *IFRIC Update* July 2012 (agenda paper 4.3, tabled);
- (d) AASB Staff Issues Paper DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market* (agenda paper 4.4);
- (e) AASB Staff Issues Paper DI/2012/2 *Put Options Written on Non-controlling Interests* (agenda paper 4.5);
- (f) DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market* (agenda paper 4.6);
- (g) DI/2012/2 *Put Options Written on Non-controlling Interests* (agenda paper 4.7);
- (h) a memorandum re IFRS Foundation Trustees Review of the IFRS Interpretations Committee from Peter Batten dated 10 July 2012 (agenda paper 4.8); and
- (i) Trustee's conclusions on findings and responses (agenda paper 4.9).

July 2012 IFRS Interpretations Committee meeting

The Board received a report on the tentative decisions made by the IFRS Interpretations Committee at its July 2012 meeting. The Board particularly noted that the Committee's agenda decisions in relation to (i) presentation of payments of non-income taxes, and (ii) accounting for market value uplifts on assets that are to be introduced by a new income tax regime, are consistent with the AASB's tentative agenda decisions



issued in December 2011 in the context of a Minerals Resource Rent Tax. Accordingly, the Board decided it does not need to finalise its own tentative agenda decisions because the issues have been sufficiently addressed by the Committee.

The Board decided there were no issues arising out of the July 2012 Committee meeting that ought to be raised with the Committee at this stage.

Draft IFRIC Interpretation DI/2012/1 Levies Charged by Public Authorities on Entities that Operate in a Specific Market

The Board decided its submission on Draft IFRIC Interpretation DI/2012/1 should include comments that:

- (a) it is questionable whether the Interpretation needs to be issued, because one of the main sources of potential diversity in practice (namely, the timing of recognition of liabilities for levies that become due only if a minimum revenue threshold is achieved) is excluded from the scope of the Draft Interpretation; and
- (b) if the Interpretation is issued, its proposals are broadly supported by the Board, except that:
 - (i) its scope should be amended and clarified, because, for example:
 - (A) it could result in inconsistent financial reporting outcomes if levies that become due only if a minimum revenue threshold is achieved are excluded, but levies that become due only if another type of minimum threshold is achieved (e.g., payroll tax with an expenditure threshold, or carbon taxes with a threshold based on the units of carbon emitted) are included;
 - (B) it is unnecessary and inappropriate to indicate the Interpretation applies to 'non-exchange transactions'; and
 - (C) it addresses the accounting for levies recognised in accordance with the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which is not limited to provisions; and
 - (ii) consistent with IAS 37, the Interpretation should not address whether recognition of a liability within its scope gives rise to an expense.

Draft IFRIC Interpretation DI/2012/2 Put Options Written on Non-controlling Interests

The Board decided its submission on Draft IFRIC Interpretation DI/2012/2 should support the conclusions in the Draft Interpretation.

Process

The Board decided to finalise the submissions on the above Draft Interpretations to the Committee out of session, having regard to any comments that might be received from constituents.

Action: Staff
Board Members



ED 212 *Not-for-Profit Entities within the General Government Sector*

Agenda Item 5

The Board had before it:

- (a) a memorandum from Shu In Oei dated 7 July 2012 (agenda paper 5.1);
- (b) part 3 of the collation of written submissions on ED 212 *Not-for-Profit Entities within the General Government Sector* (agenda paper 5.2);
- (c) part 4 of the collation of written submissions on ED 212 (agenda paper 5.3); and
- (d) staff issues paper on the next step for ED 212 (agenda paper 5.4).

Agenda paper 5.2 on the specific matter for comment in ED 212 relating to budgetary reporting

The Board first considered the issues in agenda paper 5.2, which focused on the budgetary reporting proposals in ED 212 (specific matter for comment (a)(vi)). The Board directed staff to develop a draft separate topic-based Standard that would require NFP entities within the GGS adopting Tier 1 reporting to disclose:

- original budgeted financial statements in relation to controlled items, where such statements are presented to Parliament, recast if necessary to align with the presentation and classification adopted in the financial statements; and/or
- original budgeted information about administered items, where such information is presented to Parliament, recast if necessary to align with the presentation and classification adopted in the financial report for the information about administered items presented in accordance with AASB 1050 *Administered Items*.

Explanations of major variances, including those arising from material revisions to budgets, would also be required.

The applicability of any of the requirements for NFP entities within the GGS adopting Tier 2 reporting requirements will be considered in due course.

The Board noted that an approach of developing a separate topic-based standard could result in relocation of the budgetary requirements currently located in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The Board formed a sub-committee consisting of Kevin Stevenson, Ian McPhee, Sue Highland, and Brett Rix to assist staff in developing the draft standard.

A detailed list of tentative decisions made by the Board for each issue in agenda paper 5.2 is provided in Attachment A.

Agenda paper 5.3 on the remaining specific matters for comment in ED 212

The Board considered agenda paper 5.3 (the final part of the collation of comments), which focused on the specific matters for comment in ED 212 that had not been included in previous parts of the collation. With



the exception of the transitional period and operative date issues, the Board considered that it had addressed the comments made on these specific matters for comment in the process of it forming its previous tentative decisions.

The Board decided to consider the transitional period and operative date issues as part of its consideration of any sweep issues arising from the draft standard on budgetary reporting to be developed by staff.

The Board noted that it has now addressed all the substantive issues relating to ED 212.

Agenda paper 5.4 on the next step

The Board considered the question of the most appropriate place to record its basis for conclusions, particularly in relation to its tentative decisions to not proceed with substantive aspects of ED 212. Given the proposals in ED 212 are broader than budgetary reporting, the Board decided that a standard on budgetary reporting (see the decision relating to agenda paper 5.2 above) would not be a suitable vehicle in which to present its basis for not proceeding with these proposals. It decided its fundamental basis for not proceeding should be placed on the public record in a brief document, perhaps in the form of an Agenda Decision. Such a document would also be an appropriate vehicle in which a member could express a dissenting view. The Board further decided that this decision is applicable, beyond ED 212, to future proposals that are not proceeded with, where there is no standard available as an appropriate vehicle to present the fundamental basis for not proceeding.

In addition to the above decisions, because certain aspects of ED 212 were developed in response to an arm of a direction from the Financial Reporting Council (FRC), the Board decided that a more detailed report should be prepared for the FRC outlining the history of the project, the due process followed by the Board and the rationale for the Board's decisions in relation to the FRC direction. The Board directed staff to develop the report to FRC out-of-session, for review and final approval by a sub-committee consisting of Kevin Stevenson (Chair) and Ian McPhee and Kris Peach (Deputy Chairs).

Action:	Staff
	Sub-Committees
	Chair

Income from Transactions of Not-for-Profit Entities

Agenda Item 6

The Board had before it:

- (a) a memorandum from Jim Paul dated 10 July 2012 (agenda paper 6.1);
- (b) a staff issues paper on recognising liabilities for onerous performance obligations (agenda paper 6.2); and
- (c) a staff note on a teleconference between members of HoTARAC and AASB staff on 4 July 2012 which focused mainly on draft minutes of the AASB's tentative decisions made in response to the letter on this project from HoTARAC dated 7 May 2012 (agenda paper 6.3 [tabled]).



The Board noted the IASB has tentatively decided to not proceed with its proposal in IASB ED/2011/6 *Revenue from Contracts with Customers* for recognising onerous performance obligations, and to instead apply the requirements for onerous contracts in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to contracts with customers. The Board decided its ED on Income from Transactions of NFP Entities (which will be based on the IASB ED) should note this IASB decision, and indicate the AASB's intention to conform to the ultimate IASB decision. In making that decision, the Board noted that:

- (a) in its submission on IASB ED/2011/6, it recommended the approach tentatively decided by the IASB (as outlined above); and
- (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* contains no NFP-specific modifications of the onerous contract requirements in IAS 37.

The Board received a staff report, and considered the staff note, on the above-mentioned teleconference with HoTARAC members on 4 July 2012. The teleconference focused particularly on the Board's draft proposed principles for identifying performance obligations. In light of the issues raised by HoTARAC members, the Board decided to add clarifications of some of those principles. In particular, the Board decided that its draft ED on Income from Transactions of NFP Entities should:

- (a) emphasise that both the 'enforceable' and 'sufficiently specific' criteria must be satisfied for a performance obligation to exist. Further, it should clarify that, although enforceability of promises to provide goods or services is proposed to be assessed at a contract/arrangement level, whether such a promise is 'sufficiently specific' to be a performance obligation is proposed to be assessed separately for each promise (paragraph IG6 of the Working Draft ED considered at the Board's April 2012 meeting refers);
- (b) clarify the nature of 'advance receipts' (which are proposed to be treated as liabilities), and give examples of the treatment of transfers under binding arrangements that are received shortly before the end of the reporting period and either can, or cannot, be spent or used until a subsequent reporting period;
- (c) be reviewed throughout, and reworded where necessary, to provide a neutral indication of the likelihood that performance obligations would be identified in respect of particular types of arrangements;
- (d) be reviewed in relation to clarifying any interaction between paragraphs IG5 – IG7 and paragraph IG20 of the Working Draft ED considered at the Board's April 2012 meeting; and
- (e) include examples based on some Commonwealth/State national partnership agreements that would assist in applying the Board's proposed model for income recognition by NFP entities.

Action:

Staff



Related Party Disclosures by NFP Public Sector Entities

Agenda Item 7

The Board had before it:

- (a) a memorandum from Clark Anstis and Daisy Yang (agenda paper 7.1);
- (b) staff collation of submissions and roundtable comments (with staff comments and views) (agenda paper 7.2);
- (c) the submissions received from constituents on ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector* (July 2011) (agenda paper 7.3);
- (d) staff summary of significant matters raised at roundtables (October 2011) (agenda paper 7.4); and
- (e) AASB Exposure Draft ED 214 (agenda paper 7.5).

The Board completed its review of the submissions received in response to ED 214 and the comments of participants in the roundtable discussions, considering the remaining issues regarding ED 214 that had not been addressed at its June 2012 meeting.

The Board decided that:

- (a) the requirements in AASB 124 *Related Party Disclosures* for disclosure of the remuneration of key management personnel (KMP) should apply to NFP public sector entities. However, due to significant practical difficulties that might be encountered in relating Ministerial remuneration to particular entities, the Board considered that some relief from the requirements should be available where appropriate Ministerial remuneration disclosures are made in the financial statements of other entities in the jurisdiction, such as the total remuneration for individual Ministers who are KMP of a NFP public sector entity. Members agreed that the detailed individual KMP disclosure requirements set out in paragraphs Aus29.1-Aus29.9.3 of AASB 124 should not be extended to government businesses or other public sector entities, since those paragraphs previously have been deleted from AASB 124 with effect from 1 July 2013;
- (b) GGS financial statements should not be exempt from complying with AASB 124, since related party disclosures for the GGS need not be the same as the disclosures for the whole of government or other public sector entities;
- (c) the addition of implementation guidance for NFP public sector entities to AASB 124 should be sufficient, so that a separate public sector perspective does not need to be added to the Standard;
- (d) no amendments are required to the reduced disclosure requirements (RDR) already specified for AASB 124 – respondents to ED 214 did not request any RDR amendments;
- (e) the proposals (as revised) are in the best interests of the Australian economy and would result in useful information for users of financial statements, and there are no regulatory, cost/benefit or other issues that would prevent their implementation; and



- (f) the amendments to AASB 124 should apply to annual reporting periods beginning on or after 1 July 2014, to allow sufficient time for entities to compile comparative information. Members considered whether to allow prospective application (i.e. without comparatives) for annual reporting periods beginning on or after 1 July 2013, but agreed that the usual retrospective approach to transition should be adopted. Members noted that applying the amended AASB 124 to 2013/14 without comparatives would be more onerous than applying it to 2014/15 with comparatives.

The Board decided to address the drafting of the amendments to AASB 124 out of session.

Action: Staff
Board Members

Service Concession Arrangements: Grantor

Agenda Item 8

The Board had before it:

- (a) a memorandum from Frank Traczewski and Christina Ng dated 10 July 2012 (agenda paper 8.1);
- (b) a discussion paper on IPSAS 32 *Service Concession Arrangements: Grantor* (agenda paper 8.2); and
- (c) IPSAS 32 (agenda paper 8.3).

The Board considered a preliminary staff issues paper addressing matters relevant to determining the suitability of IPSAS 32 in an Australian context, in particular:

- (a) whether IPSAS 32 is clear in relation to the question of whether a grantor controls a service concession asset when the asset is regulated by a third party;
- (b) whether the grantor should recognise revenue immediately or over the term of the arrangement when it receives the service concession asset in exchange for granting the operator a right to charge users of the asset or another revenue-generating asset; and
- (c) how the revenue (or liability) should initially be measured.

Although the Board considers it is likely that modifications would need to be made to IPSAS 32, the Board decided that IPSAS 32 provides an appropriate basis for developing an Australian pronouncement, and accordingly, it is not necessary for the Board to reconsider the scope of IPSAS 32 or the underlying control model. For example, a grantor may not necessarily control an asset if it regulates the price of a service concession asset only, and does not regulate what service the asset should provide and to whom. The Board directed staff to explore further the issues staff had identified in agenda paper 8.2 and to particularly consider the implications of the Board's ongoing projects on:

- (a) Control in the NFP Sector (for example, as it relates to control and regulation). Conclusions about whether a grantor controls a service concession asset should be aligned with the outcomes of the Control in the NFP Sector project. In relation to the implications of price being determined by a third party regulator, the Board noted that it might still be regarded as the grantor controlling the price



because the contract would typically require the operator to be bound by the regulator and therefore the grantor effectively controls the price through the contract; and

- (b) Revenue from Contracts with Customers (for example, as it relates to revenue from licenses). In relation to licenses, the Board noted the IASB decisions in its Revenue from Contracts with Customers project and also noted the view that not all licenses should necessarily be treated the same. The Board asked staff to discuss this matter with IASB staff.

The Board plans to consider a further issues paper at its next meeting. Some further field work may be undertaken to consider how the accounting would apply to different types of assets pertinent to service concession arrangements. These include assets used to provide the service, whether pre-existing, created by the grantor (for example, 4G license) or constructed by the operator, and the right given to the operator to charge users of the asset.

Action: Staff

Superannuation Entities

Agenda Item 9

The Board had before it:

- (a) a memorandum from Angus Thomson and Daisy Yang dated 9 July 2012 (agenda paper 9.1);
- (b) Collation of comments on ED 223 *Superannuation Entities* [incorporating staff observations and views] (agenda paper 9.2); and
- (c) Submission on ED 223 from Department of Finance and Deregulation dated 14 June 2012 (agenda paper 9.3).

The Board noted it had considered at its June 2012 meeting issues identified in the Collation on financial statement presentation, measurement of member benefit liabilities, insurance arrangements and disaggregated information.

In relation to the remaining issues identified in the Collation, the Board decided:

- (a) to proceed with the proposal to require consolidated financial statements. In that context, the Board also noted:
- (A) recent tentative decisions of the IASB on investment entity accounting and decided to monitor the potential implications for superannuation entities; and
- (B) the IASB plans to finalise amendments to IFRS 10 *Consolidated Financial Statements* in relation to investment entities by the end of calendar 2012.

Some members were particularly concerned that the eventual criteria/guidance in a forthcoming IASB standard on investment entities, if applied to Australian superannuation entities, would result in only some superannuation entities being classified as 'investment entities'. Members noted that, given the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans* would be



an 'industry' standard, it would be possible for the Board to have a consistent approach within the superannuation industry;

- (b) to proceed with the proposal that the requirements of AASB 7 *Financial Instruments: Disclosures*, with the exception of the fair value disclosure requirements, should be applied to member benefit liabilities, with the possible addition of some further guidance showing how AASB 7 requirements might apply in particular circumstances. The Board noted that some constituents have experience of applying AASB 7 to member benefit liabilities and that the relevant specific exclusion from AASB 7 relates only to employers' rights and obligations arising from employee benefit plans to which AASB 119 *Employee Benefits* applies. The Board also asked that staff re-consider the qualitative disclosures proposed in ED 223, in particular in relation to defined benefit liabilities, to ensure they are complementary to the relevant AASB 7 disclosures and not duplicative;
- (c) to proceed with the proposal that the requirements of AASB 7 should be applied to non-financial liabilities (other than tax liabilities), whilst also acknowledging that superannuation entities are likely to have few such liabilities;
- (d) in relation to Tier 2 general purpose financial statements, to retain the position under which:
 - (i) entities determine whether they are reporting entities and need to prepare general purpose financial statements; and
 - (ii) AASB 1053 *Application of Tiers of Australian Accounting Standards* deems superannuation plans regulated by the Australian Prudential Regulation Authority (APRA), other than Small APRA Funds, to have public accountability (and therefore they would apply Tier 1 requirements in preparing general purpose financial statements);
- (e) to clarify that pooled superannuation trusts would not be within the scope of the replacement standard for AAS 25;
- (f) there should be at least two years between the issue and application date of the replacement standard for AAS 25, but this period might be lengthened depending on the extent and likely impacts of changes from the existing requirements and the month in which the replacement standard is issued; and
- (g) to permit early adoption of the replacement standard.

The Board noted the 'best case' timetable for completing the replacement standard for AAS 25 (in agenda paper 9.1), which identifies April 2013 as a feasible issue date.

The Board intends to consider issues papers on measuring defined benefit liabilities and matters relating to public sector defined benefit superannuation plans at its next meeting.

Action:

Staff



IASB ED: Annual Improvements 2010-2012

Agenda Item 10

The Board had before it

- (a) a memorandum from Nikole Gyles and Gunter Leng dated 10 July 2012 (agenda paper 10.1);
- (b) an issues paper – IASB ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle* – Preliminary AASB staff views (agenda paper 10.2); and
- (c) AASB ED 225 (incorporating IASB ED/2012/1) *Annual Improvements to IFRSs 2010-2012 Cycle* (agenda paper 10.3).

The Board considered preliminary staff views on IASB ED/2012/1 *Annual Improvements to IFRSs 2010–2012 Cycle*. Subject to any additional issues identified in comment letters received by the Board in response to its ED 225 (which incorporates IASB ED/2012/1), the Board decided to express concerns to the IASB about the following proposed amendments:

- (a) IFRS 2 *Share-based Payment* – the IASB should explain the nature of the issue being addressed more clearly in the Basis for Conclusions;
- (b) IFRS 13 *Fair Value Measurement* – the suitability of using the Basis for Conclusions as the mechanism for effecting the improvement rather than amending the Standard;
- (c) IAS 12 *Income Taxes* – the paragraphs relating to recognition of deferred tax assets for unrealised losses should be redrafted to help ensure the requirements are understandable;
- (d) IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – the Board decided to comment that:
 - (i) it supports the proposed clarifications that, in relation to the revaluation method in those Standards:
 - (A) the determination of the accumulated depreciation/amortisation does not depend on the selection of the valuation technique; and
 - (B) the accumulated depreciation/amortisation is computed as the difference between the gross and the net carrying amounts. Consequently, in instances where the residual value, or the useful life or the depreciation method has been re-estimated before a revaluation, restatement of the accumulated depreciation is not proportionate to the change in the gross carrying amount of the asset; and
 - (ii) it recommends omitting the references to ‘observable market data’ from the proposed third sentence of paragraph 35(a) of IAS 16 and of paragraph 80(a) of IAS 38, respectively (in the context of non-proportionate restatements of the gross carrying amounts of assets). This is because the appropriateness of non-proportionate restatements of the gross carrying amounts of assets is unrelated to whether observable market data exist, and because the wording of that third sentence could be inappropriately interpreted to imply that non-



proportionate restatement of the gross amount of an asset could only occur when observable market data exists.

The Board decided to finalise the submission to the IASB out of session.

Action: Chairman
Staff

IPSASB ED 47 – Financial Statement Discussion and Analysis

Agenda Item 11

The Board had before it:

- (a) a memorandum from Clark Anstis and Natalie Batsakis dated 10 July 2012 (agenda paper 11.1); and
- (b) IPSASB Exposure Draft ED 47 *Financial Statement Discussion and Analysis* (March 2012) (agenda paper 11.2).

The Board considered issues identified by staff in respect of the ED and decided to make a submission. The Board decided that its submission should address the following principal matters:

- (a) it is unclear how the proposals for a Financial Statement Discussion and Analysis (FSDA) fit within the IPSASB's overarching view of general purpose financial reporting relative to other "broad scope" components being considered in other IPSASB projects, such as service performance reporting and reporting on the long-term sustainability of an entity's finances. For example:
 - (i) the proposed definition of 'financial statement discussion and analysis' appears to overlap components of service performance reporting and reporting on the long-term sustainability of an entity's finances. For example, paragraph 18(e) refers to information about service delivery methods and changes therein, which could well be a feature of service performance information; and
 - (ii) the IPSASB's proposal to make the requirements for FSDA mandatory for entities complying with IPSASs appears to be inconsistent with the IPSASB contemplating non-authoritative guidelines for service performance reporting and reporting on the long-term sustainability of an entity's finances;
- (b) the potential for confusion in relation to IPSASs "applicable to financial statements" and "other" IPSASs, of which an IPSAS for FSDA would be the first, arising from the proposed consequential amendment to paragraph 28 of IPSAS 1 *Presentation of Financial Statements* to require an entity's financial statements to include a statement of compliance with "IPSASs applicable to the financial statements" instead of "IPSASs";
- (c) the interaction of the proposed FSDA requirements and IPSAS 24 *Presentation of Budget Information in Financial Statements*:



- (i) paragraph 26 of the ED would require the FSDA to address budget variances to the extent that such information is not included in the financial statements. Given that IPSAS 24 applies only to public sector entities that are required to, or elect to, publish their approved budgets, the proposals effectively broaden the scope of IPSAS 24. In addition, the proposals would appear to remove the option under IPSAS 24 for the explanation of budget variances to be presented in other public documents; and
- (ii) the transitional provisions in paragraph 35 would appear to require all entities adopting an FSDA IPSAS early to also apply IPSAS 24, despite the limited applicability of IPSAS 24; and
- (d) although supporting the retention of the Implementation Guidance, the Illustrative Example would be too detailed to be included in a final pronouncement, as well as presently relating only to a national government and inappropriately including political material. If Illustrative Examples are to be retained, then the IPSASB could give consideration to illustrating a FSDA for another type of public sector entity.

The Board decided that the wording of the submission will be finalised by the Chairman.

Action:	Staff
	Chairman

IASB and IFRS Interpretations Committee Due Process Handbook

Agenda Item 12

The Board had before it:

- (a) a memorandum from Peter Batten dated 10 July 2012 re IFRS Foundation Invitation to Comment (ITC) *IASB and IFRS Interpretations Due Process Handbook* (agenda paper 12.1);
- (b) a draft AASB submission (agenda paper 12.2); and
- (c) IFRS Foundation Invitation to Comment (ITC) *IASB and IFRS Interpretations Due Process Handbook*.

The Board considered issues identified by staff in respect of the IFRS Foundation's Invitation to Comment *IASB and IFRS Interpretations Committee Due Process Handbook* and decided to make a submission.

The Board decided its submission should express general support for the proposed updated Handbook, whilst noting some reservations as outlined in agenda paper 12.2. The main reservation relates to whether, in implementing the proposals, the Foundation would be able to maintain a reasonable balance between:

- (a) ensuring the IASB and the Committee are actively issuing and revising their Standards and Interpretations on a timely basis to support the issuance of high-quality financial reports that are responsive to user needs; and
- (b) ensuring a high-quality governance process is followed in developing and approving these Standards and Interpretations.



The Board also noted concerns relating to effective dates and transitional matters pertinent to Standards

The submission will be finalised out of session through the Chair.

Action: Staff
Chairman

Financial Instruments

Agenda Item 13

The Board had before it:

- (c) a memorandum from Christina Ng and Sue Lightfoot dated 10 July 2012 (agenda paper 13.1); and
- (d) a summary of the IASB/FASB tentative impairment model (agenda paper 13.2).

The Board received an update on the IASB's Financial Instruments project. The Board noted the IASB has completed its deliberations for the purposes of further EDs on the 'impairment' and 'classification and measurement' phases of the Financial Instruments project.

The proposed impairment model is based on the general deterioration of credit quality and would require entities to categorise financial assets measured at amortised cost into three 'buckets'. Measurement of financial assets in 'bucket 1' would result in recognition of losses on 'day one'. The IASB will commence drafting a revised ED on impairment while the FASB continues to consider findings from its outreach on the application of the model.

The Board noted that the IASB had made tentative decisions in respect of:

- the mechanics of reclassification of financial assets between measurement categories, including into and out of FVOCI;
- disclosures on reclassification; and
- transition requirements as a result of the limited improvements to IFRS 9 classification and measurement requirements.

The Board also noted that the IASB had tentatively decided that once IFRS 9 is finalised entities would be prohibited from applying earlier versions of the standard, however those entities already applying an earlier version of IFRS 9 could continue until the mandatory effective date. The IASB also continues to discuss macro-hedge accounting and is targeting issuance of a discussion paper in Q4 2012, rather than an exposure draft. Macro-hedge accounting is no longer part of the IFRS 9 project.

The Board also noted that the IASB staff draft Standard on general hedge accounting is now expected to be available on the IASB website for 90 days, no earlier than August 2012.

The Board decided there were no issues that ought to be raised with the IASB at this stage.

Action: Staff



Leases

Agenda Item 14

The Board had before it:

- (a) a memorandum from Nikole Gyles and Masha Marchev dated 10 July 2012 (agenda paper 14.1); and
- (b) a tabled agenda paper – Leases project update (agenda paper 14.2).

The Board received an update on the discussion by the IASB and the FASB in their June and July 2012 meetings on the Leases project. The Board decided there are no issues that ought to be raised with the IASB prior to drafting its submission on the forthcoming further IASB ED. However, the Board noted it has significant reservations about the tentative decision by the IASB and the FASB to distinguish between two types of leases and treat them differently for lease expense recognition purposes. Some Board members expressed specific concerns with the implications of a straight-line single lease expense approach. Some Board members also expressed concern that the IASB and FASB had not adequately addressed the issue of componentisation of right-of-use assets.

Revenue from Contracts with Customers

Agenda Item 15

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 10 July 2012 (agenda paper 15.1); and
- (b) a tabled agenda paper – Revenue project update (agenda paper 15.2).

The Board received an update on the discussion by the IASB and the FASB in their July 2012 meeting on the Revenue from Contracts with Customers project. The Board decided there were no issues that ought to be raised formally with the IASB at this stage.

Income Tax – Substantive Enactment

Agenda Item 16

The Board had before it

- (a) a memorandum from Nikole Gyles dated 10 July 2012 (agenda paper 16.1);
- (b) an issues paper – AASB 112 *Income Taxes* – Substantive enactment (agenda paper 16.2); and
- (c) responses to IFASS Outreach (confidential agenda paper 16.3).

The Board received an update on correspondence with IFRS Interpretations Committee staff and an analysis of AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*. The Board noted an email from the IFRS Committee staff indicating that given the differences that exist from country to country in how tax law is enacted, they were not convinced the Committee could issue guidance on the matter. The Board decided not to raise the issue with the IFRS Interpretations Committee.



The Board decided to issue an ED proposing the withdrawal of the Interpretation on the basis that the principle in the Interpretation is not clear. The basis for conclusions accompanying the ED will note the Board's view that in Australia a tax Bill would not be considered substantively enacted until it has passed through the Parliament. The Board decided the ED would be open for comment for a period of 90 days.

Action: Staff
Board Members

IPSASB Report

Agenda Item 18

The Board had before it:

- (a) a memorandum from Clark Anstis dated 10 July 2012 (agenda paper 18.1);
- (b) New Zealand report on the IPSASB June 2012 meeting (agenda paper 18.2); and
- (c) *IPSASB Meeting Highlights* (June 2012).

The Board received a report on the June 2012 meeting of the IPSASB, particularly noting the following:

- (a) progress on various IPSASB projects (including the Conceptual Framework, Public Sector Combinations, First-time Adoption of IPSASs, and an update of its IPSASs on Consolidation and Joint Arrangements);
- (b) the IPSASB expects to finalise at its next meeting a Consultation Paper on IPSASs and Government Finance Statistics (GFS) Reporting Guidelines. The Consultation Paper will address differences between IPSASs and GFS, considering the opportunities for the IPSASB and the statistical community to reduce differences and how differences could best be managed by entities reporting under both IPSASs and GFS requirements; and
- (c) the IPSASB has now issued its Consultation Paper on projects that should be added to its work program in 2013-14. A more extensive consultation on its work program is expected once formal oversight arrangements for the IPSASB are put in place.

Emerging Issues

Agenda Item 19

In addition to those matters addressed in this meeting's agenda, Board members identified the following matters for consideration by the AASB:

- (a) the Australian Government's Interdepartmental Committee on NFP Sector Reform, which is considering ways of simplifying acquittal requirements for recipients of grants provide by government departments;
- (b) the fair value of Defence Weapons Platforms, noting that a letter is expected shortly from the Department of Defence requesting the Board to consider certain aspects;



- (c) proposals by the International Valuation Standards Council relating to Valuations in the Extractive Industries;
- (d) possible nomination of an AASB staff member as a member of the Australian Valuations Standards Board; and
- (e) an income tax issue re franking of dividends and reserve accounting. The Board directed staff to consider the issue and provide a report back to its next meeting.

The Board also received an update on developments in standard setting in New Zealand.

Review

Agenda Item 20

Those members of the Board participating in the 'Dropbox' trial requested that any papers sent after the initial mailout be placed in a separate folder to aid their identification. They also asked for the file name protocol to be reviewed. The Board did not have any substantive comments other than those reflected in relevant items above.

Close of Meeting

The Chairman closed the meeting at approximately 12.50 p.m. on Thursday 26 July 2012.

Approval

Signed by the Chairman as a correct record
this fifth day of September 2012

ATTACHMENT A

Agenda paper 5.2 on budgetary reporting

The outcomes of the Board's deliberations on each of the issues in agenda paper 5.2 are as follows:

- (a) *The threshold question of whether issues relating to disclosure of budgetary information should be considered as part of a separate, broader, longer-term Budgetary Reporting project rather than in the context of ED 212 (issue 1)*

The Board decided to proceed to consider budgetary reporting matters in the context of ED 212, on the basis of the arguments in agenda paper 5.2. In particular, the Board's basis for proceeding included that:

- (i) the proposals in ED 212 relating to budgetary reporting have the potential to improve the quality of financial reporting by NFP entities within the GGS in the relatively short term. A more broadly scoped project would inappropriately delay achievement of those improvements. The Board noted that it could, as a separate short-term project, consider expanding the scope of the budgetary reporting requirements to a broader range of entities sometime in the future. In relation to potentially expanding the requirements to apply in the private sector, the Board noted that a distinction between the public sector and the private sector is that only in the public sector is there a formal requirement to make budgets public;
 - (ii) although some argue that proceeding with ED 212 would address only a subset of entities for whom budgetary reporting should be considered, the entities within the scope of the ED 212 proposals (i.e. NFP entities within the GGS) are a significant group of entities for which there is a formal requirement that budgets are published. Accordingly, the current requirements for governments to present budgets to Parliament provide a context for proceeding with consideration of the ED 212 budgetary reporting proposals; and
 - (iii) the proposals in ED 212 are based on the budgetary requirements in AASB 1049 and, as evident from the post-implementation review of AASB 1049, those requirements are operational in practice.
- (b) *In relation to controlled items, to require NFP entities within the GGS to disclose budgeted financial statements presented to Parliament and explanations of major variances (issue 2)*

Consistent with the Board's basis for proceeding in the context of ED 212 (see (i) to (iii) immediately above), the Board considered the issue from the perspective of the role of a standard setter, the scope of financial reporting and its transaction neutral policy. Overall, the Board was persuaded by the importance of budgetary reporting for accountability in the public sector and decided to proceed with the aspect of the proposal depicted in issue 2. The Board particularly noted that, in the public sector, comparisons of current period to the previous period actuals would provide an incomplete picture without the comparisons from budgets to actuals because, for example, machinery of



government changes in one period, or inefficiencies within an entity, can often cause period to period comparisons to be less informative without the budget against actual comparisons.

In arriving at this decision:

- (i) The Board noted the concerns expressed by some respondents to ED 212 about the auditability of the budgetary information that would be required to be disclosed. However, the Board also noted that similar concerns were previously raised in the context of AASB 1049, which appear to have been resolved in practice (as evident from the post-implementation review of AASB 1049). In any event, the Board noted that if any audit related issues arise in a NFP entity within the GGS context, they would be matters more suited for consideration by the AUASB rather than the AASB.
- (ii) Some Board members questioned the suitability of referring to 'major' variances, given the role materiality plays in standards. The Board decided to retain the reference, given it is used in AASB 1049 without insurmountable practice issues being identified. However, the Board decided that it would reconsider the matter in due course as part of a broader consideration of terminology associated with 'materiality' used in a range of standards.
- (iii) In contrast to issues faced in the context of AASB 1049, the Board noted there are a number of issues that arise from the manner in which the budgetary reporting proposals are drafted in ED 212 that warrant further guidance, such as where an entity's budget is included within the consolidated budget of a higher level entity or where only summarised budget information about a particular entity is presented to Parliament. The Board directed staff to investigate budgetary reporting practices of NFP entities within the GGS further, including for the purpose of identifying the extent to which the presentation and classification between budgets and financial statements differ, and develop suitable guidance to clarify the meaning of the phrase 'budget ... presented to Parliament' in the context of NFP entities within the GGS.

- (c) *To require that budgeted financial statements be based on the original budget, with an option to disclose any additional revised budgets (issue 3)*

Consistent with the requirements in AASB 1049, and evidence from the post-implementation review of AASB 1049 that the requirements are operational, the Board decided to proceed with the aspect of the proposal depicted in issue 3. The Board noted that explanations of major variances between an original budget and actuals might refer to revisions during a period, particularly if an entity's structure or objectives are changed during the period (see issue 2 above). However, consistent with the notion of accountability (i.e. the original budget is the most widely publicised and is a primary reference point for assessing accountability), the Board confirmed that the principle should be to compare actuals with the original budget.



- (d) *To require that budgeted financial statements be recast, if necessary, to align with the presentation and classification adopted in the financial statements (issue 4)*

Consistent with the requirement in AASB 1049, which was amended in response to findings from the post-implementation review of AASB 1049, the Board decided to proceed with the aspect of the proposal depicted in issue 4. The Board noted that some of the concerns expressed by constituents would be addressed by providing additional guidance on the scope of the proposals for situations where an entity's budget is presented within a consolidated budget or only a summary of budgeted information is presented (see the Board's decision on issue 2(iii) above).

- (e) *To require NFP entities within the GGS to disclose budgetary information (including explanations of major variances) about administered items (issue 5)*

The Board noted its previous tentative decision not to proceed with the proposal to require disclosure of GAAP/GFS harmonised information for administered items 'coupled' with controlled items, on the basis that administered items would be the subject of a more fundamental review under the Board's Control in the NFP Sector project. However, the Board considered the proposal relating to budgetary information about administered items to be a separate issue. On that basis, consistent with the Board's decisions on issues 2 to 4 immediately above, the Board decided that if original budgeted information about administered items is presented to Parliament it should be required to be presented in the financial report, recast if necessary to align with the presentation and classification adopted in the financial report for the information about administered items presented in accordance with AASB 1050 *Administered Items*. Explanations of major variances should also be required to be disclosed.