



Issue: Number 129
Date: 30 October 2009
Subject: AASB Meeting 102, 28-29 October 2009

Joint Meeting with New Zealand Financial Reporting Standards Board

The majority of the October meeting was conducted jointly with the FRSB. The two Boards then had short meetings of their own.

Single Economic Market Initiative

The Boards noted the August 2009 Joint statement by Prime Ministers Rudd and Key on trans-Tasman cooperation and the related Outcome Proposals on financial reporting.

The Boards decided to take a leadership role on the convergence of financial reporting in Australia and New Zealand and to liaise with regulators in each jurisdiction in the interests of achieving the relevant Outcome Proposals.

Australian – New Zealand Convergence

The Boards considered summaries of differences between Australian and New Zealand accounting standards and decided that:

- (a) as a priority, there should be a joint exposure draft that includes proposals about each relevant modification from IFRSs that affects for-profit entities seeking, in the first instance, to eliminate differences from the foundation IFRSs – or that any supplements to IFRSs should be the same in both jurisdictions;
- (b) it may be useful to have a means such as a separate standard (with identical content in each jurisdiction) that clearly shows any disclosure requirements applying to for-profit entities that are in addition to the disclosures required in IFRSs; and
- (c) in the longer term, they would consider developing a joint exposure draft relating to convergence of modifications to IFRSs in respect of not-for-profit/public benefit entities containing proposals based on application of the Boards' *Process for Modifying IFRSs for PBE/NFP* subject to current work being undertaken on the reporting framework in each jurisdiction.

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The Boards noted that the above decisions are consistent with the Outcome Proposals in respect of the Single Economic Market Initiative.

Differential Reporting

The Boards considered similarities and differences between the proposals for revised differential frameworks in the two countries. The Boards discussed:

- (a) the suitability of the IFRS for SMEs as a second tier set of reporting requirements in the two jurisdictions;
- (b) whether the proposed Australian reduced-disclosure regime would be an option for New Zealand; and
- (c) whether the approach to differential reporting for not-for-profit entities in the private and public sectors should differ from the approach in the for-profit private sector.

The Boards agreed in principle that, subject to legislative change in both countries, the differential reporting regime for for-profit private sector entities should be identical in both countries and a reporting regime for second tier for-profit private sector entities should involve reduced disclosures, but should not involve amendments to full IFRS recognition and measurement requirements.

The Boards discussed the potential for having the same differential reporting regime available for not-for-profit entities in the private and public sectors in the two countries based on

- (a) a policy of transaction neutrality;
- (b) full recognition and measurement requirements; and
- (c) reduced disclosures.

Further outcomes from the sole AASB meeting can be found at page 6 of this *Action Alert*.

Conceptual Framework – Measurement

The Boards held an education session on developments in the IASB-FASB Conceptual Framework project on measurement and in standards-level projects of the IASB. The Boards agreed to write a joint letter to the IASB expressing concern about the direction being taken in the Sample Measurement Chapter available on the IASB website.

Liabilities/Provisions

Staff provided the Boards with an update on recent developments in the IASB's project on Liabilities, which is expected to result in substantive changes to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under the IASB's tentative amended IAS 37 approach, liabilities would be measured using expected future cash outflows on the basis of the amount the entity would rationally pay to be relieved of its present

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obligation and this amount would include a risk margin. The expected future cash outflows, including the risk margin, would be remeasured at each reporting date. It is anticipated that the IASB will re-expose selected measurement issues.

Insurance Contracts

The Boards were provided with an update on the status and progress of the IASB's Insurance Contracts project. The Boards noted that the IASB has tentatively decided that its forthcoming ED on insurance contracts should:

- (a) propose that an unearned premium approach be required to be used for pre-claims liabilities of short-duration insurance contracts;
- (b) propose that an approach based on the forthcoming amended IAS 37, modified to exclude 'day-one' gains, be used for claims liabilities and pre-claims liabilities of insurance contracts that are not short-duration in nature; and
- (c) explain and seek comment on a current fulfilment value approach that includes a 'composite margin' in the measurement of an insurance liability.

The Boards also noted that, if adopted, the IASB's decisions to date in respect of insurance contracts would have a number of implications for the measurement of insurance liabilities under Australian and New Zealand Accounting Standards. In particular, the same measurement model would apply to all types of insurance contracts, including life and general insurance, direct insurance and reinsurance.

The Boards made no decisions in relation to these matters at this meeting, and agreed that they should continue to monitor the IASB's decisions in relation to insurance contracts and actively promote discussion of the forthcoming IASB ED in Australia and New Zealand and make comment thereon.

IPSASB Report

The Boards received a presentation from Mr Mike Hathorn and Professor Andreas Bergmann, Chairman and Chairman-designate respectively of the International Public Sector Accounting Standards Board, on the IPSASB's work program and current activities. The IPSASB's work on IFRS convergence and its development of a public sector conceptual framework were discussed. The discussion also addressed acceptance of IPSASB Standards for application by governments in various parts of the world.

Rate-regulated Activities

The Boards considered constituents' written submissions to the AASB in response to AASB ED 185 *Rate-regulated Activities* and reviewed draft AASB and FRSB submissions on IASB ED/2009/8 *Rate-regulated Activities*. Both Boards decided that their separate submissions to the IASB should strongly oppose the proposals and instead express support for the dissenting views in the ED. An AASB subcommittee was

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formed to finalise the AASB's submission to the IASB out of session. The FRSB will finalise its submission at its November 2009 meeting.

Not-for-profit Disclosures – Service Performance Reporting

The Boards noted their respective project work on Service Performance Reporting, including the range of entities that would be potentially affected, as reflected by:

- (a) the AASB's focus on private sector not-for-profit (NFP) entities; and
- (b) the FRSB's focus on public benefit entities (PBEs) which includes public sector entities.

The Boards discussed the potential benefits and challenges of working jointly, particularly in light of the different project scopes. The Boards observed that if the focus of the work were on developing general principles, the different scopes should not be an impediment to a joint project. Accordingly, staff will prepare a joint project plan, including a time line, for consideration by the Boards. The plan will consider ways to ensure the project is progressed efficiently and in a timely manner, and will include consideration of how a joint sub-committee might be utilised. In the meantime, work will continue through the Boards' project staff.

The AASB noted the high level of interest expressed by constituents in participating in its Project Advisory Panel and intends to consult with the Panel members extensively as work progresses.

Financial Instruments

The Boards were provided with an update on the three phases (classification and measurement; asset impairment; and hedging) of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The Boards particularly noted that:

- (a) the scope of the classification and measurement requirements planned for release before year end is to be confined to financial assets;
- (b) the IASB plans to subsequently address revised classification and measurement requirements for financial liabilities;
- (c) the IASB is continuing to work on Exposure Draft revisions to the IAS 39 financial asset impairment and hedging requirements; and
- (d) the revised Standard on financial assets is expected to be available for early adoption for financial years ending on or after 31 December 2009, with a mandatory application date of 1 January 2013 in the expectation that other aspects of the revisions to IAS 39 will be completed by the end of 2010.

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The Boards also noted that the AASB's Financial Instruments Project Advisory Panel (formed by the AASB) will be utilised in considering the IASB's forthcoming proposals on Impairment and Hedging. Staff will closely monitor the meetings and decisions of the IASB and provide continuous feedback to Board members on the progress of the project phases.

Work Program

In the context of the Single Economic Market Outcome Proposals of the two countries' Prime Ministers, the Boards considered issues relating to operating in a way that would be efficient and effective in achieving common outcomes. They discussed issues relating to changing the structure and/or operations of the Boards and developing closer working arrangements between the staff. Given the strategic nature of the issues, the Boards established a joint sub-committee to develop draft proposals for consideration at a future meeting. The proposals will address issues including:

- (a) how the Boards might develop joint strategies;
- (b) Board membership; and
- (c) operating protocols, including consideration of how joint sub-committees established on a project-by-project basis might be utilised and interface with the Boards.

The Boards intend to meet jointly (perhaps via videoconference) three times in 2010.

Topics dealt with by the AASB in its separate meeting

Improvements to IFRS

The Board considered a draft submission on the IASB's ED/2009/11 *Improvements to IFRSs* and generally agreed with the draft submission.

Among other things, the Board decided to highlight that the proposed amendment to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* needs to be clarified to ensure that it does not restrict the use of cost for investments in subsidiaries in separate financial statements to the circumstances outlined in IAS 39 – that is, only when they do not have a quoted market price and whose fair value cannot be reliably measured.

IASCF Constitution Review

The Board considered a draft submission on the International Accounting Standards Committee Foundation (IASC Foundation) proposals set out in its discussion document *Part 2 of the Constitution Review – Proposals for Enhanced Public Accountability*. In particular, the Board focused on issues concerning the proposed accelerated due process, the importance of the IASB's independence in developing its technical agenda, the need to expressly refer to the IPSASB in the Constitution and the aim to have transaction-

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neutral standards promulgated at an international level. The submission to the IASC Foundation will be finalised out-of-session.

GAAP/GFS Harmonisation for Entities within the GGS

The Board reconsidered the arguments for and against proceeding with GAAP/GFS harmonisation for entities within the GGS based on the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*, and discussed alternative ways to proceed. The Board decided to issue non-mandatory guidance, which would include material based on the proposals in ED 174 and an illustrative example, that could be used if a jurisdiction/entity elects to present GAAP/GFS harmonised general purpose financial statements. The Board's decisions made in June 2009, when the Board originally reviewed constituents' comments on the ED, and subsequent staff work, will be taken into account in finalising the guidance. The Board noted that this approach could help facilitate comparability within and across jurisdictions.

Differential Reporting in Australia

The Board discussed alternative timelines for the completion of the reduced-disclosure regime and decided that:

- (a) the Consultative Paper on the reduced disclosure regime should be published in November 2009 with a three-month comment period; and
- (b) staff should draft an ED of the reduced-disclosure regime during the Consultative Paper's exposure period and post the work on the draft ED to the AASB website as soon as possible, in stages in need be. The objective is to have constituent views on the ED shortly after the comment period on the Consultative Paper expires to enable the Board to decide on whether to proceed with the establishment of a reduced-disclosure regime. This timetable is aimed at enabling the Board to move to the final stage of drafting a pronouncement for publication by mid-2010.

The Board also discussed and clarified some issues arising out of final Board review comments, including comments relating to the types of entities in the not-for-profit private and public sectors that should be required to report at tier one level and asked staff to amend the draft Consultative Paper accordingly.

Minutes

The Board approved the minutes of Meeting 101, held on 23-24 September 2009. These are now available on the website.

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Documents Open for Comment

The following documents are open for comment – once finalised, all submissions to the IASB, IFRIC or IPSASB are available on the AASB website.				
Originating Organisation	Topic	AASB No	AASB Due Date	IASB/IFRIC /IPSASB Due Date
IASB	Rate-regulated Activities	ED 185	Closed	20 Nov 2009
IASB	Improvements to IFRS	ED 188	30 Oct 2009	24 Nov 2009
AASB	Income from Non-exchange Transactions	ED 180	30 Nov 2009	N/A
IASB	Management Commentary	ED 183	31 Dec 2009	1 Mar 2010
IASCF	Proposals for Enhanced Public Accountability	N/A	N/A	30 Nov 2009

Next Meeting on 8-9 December 2009

It is anticipated that the Board will deal with the following items:

- Financial Instruments
- IAS 24 *Related Party Disclosures*
- Service Performance Reporting by Private Sector Not-for-Profit Entities
- Differential Reporting
- IPSASB – Long-term Sustainability of Public Finance
- Superannuation
- Currency on Issue
- Impairment of Statutory Receivables
- Interpretations

2010 Meeting Dates

Meeting dates for 2010 are:

- 3-4 February
- 17-18 March
- 28-29 April
- 9-10 June
- 28-29 July
- 15-16 September
- 27-28 October
- 8-9 December
- Unless indicated otherwise, meetings are held in Melbourne.

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