



Issue: Number 146
Date: 9 September 2011
Subject: AASB Meeting 119, 7-8 September 2011

1. Overview

At this meeting the Board, amongst other things:

- (a) progressed its Income of NFPs and Service Concession Arrangements – Grantors projects (see sections 2 and 3);
- (b) considered a submission on its public sector work program and received a report on the NFP symposiums that were held in August (see sections 4 and 19);
- (c) held preliminary discussions about the accounting implications of a carbon tax and MRRT (see sections 5 and 6);
- (d) continued to monitor and form views on a range of IASB projects/consultation documents (see sections 7 – 11, 14 and 16);
- (e) received progress reports on two of its domestic projects – Superannuation Entities and Differential Reporting (see sections 12 and 13);
- (f) discussed the results of preliminary research into reducing complexity in financial reporting (see section 15); and
- (g) received reports relating to AOSSG and NZASB (see sections 17 and 18).

A list of recently approved documents is provided in section 21, and documents open for comment are listed in section 22.

2. Income of Not-For-Profit Entities

Donated Services

The Board considered an issues paper on the recognition and disclosure of donated services received by not-for-profit entities (NFPs). It is considering this topic in developing an ED on Income of NFPs (based on the draft IFRS on *Revenue from Contracts with Customers* – which is subject to re-exposure by the IASB in the near future). After considering the submissions received on this topic in response to ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, the Board:

- (a) decided all NFPs (whether in the private or public sector) should:

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- (i) be required to make disclosures about the nature and significance of donated services received; and
 - (ii) in principle, be required to recognise donated services received at fair value, when fair value can be measured reliably;
- (b) acknowledged that applying the recognition principle in (a)(ii) above would give rise to cost/benefit issues, particularly for smaller NFPs, that need further consideration;
- (c) consequently decided to propose both requirements in (a) above in its ED on Income of NFPs, but to propose that the recognition requirement has a later application date than the operative date of the Standard. In the interim, the Board will consider:
- (i) opportunities for the review of the current regulatory regime for financial reporting by smaller NFPs; and
 - (ii) issues relating to donated services received in the context of its project on Service Performance Reporting; and
- (d) observed that, until the later application date referred to in (c) above, the present recognition requirements for donated services in AASB 1004 *Contributions* would remain unchanged.

Scope of the ED on Income of NFPs

The Board decided to exclude from its ED on Income of NFPs some issues dealt with in AASB 1004 that are outside the scope of the expected IFRS on *Revenue from Contracts with Customers*. For example, the ED would not include proposals in respect of:

- (a) recognition requirements for contributions by owners and distributions to owners;
- (b) requirements for the treatment of restructures of administrative arrangements in the public sector; and
- (c) the future role (if any) of AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

The treatment of these issues would remain unchanged until they are considered by the Board in future.

3. Service Concession Arrangements – Grantors

The Board reviewed the draft Standard on grantor accounting for service concession arrangements that is to be considered for approval by the IPSASB at its meeting later in September. The draft IPSASB Standard is available in the papers for the September meeting on the IPSASB website. The Board expressed concerns over the following:

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- (a) the treatment of regulation by third-party regulators in relation to whether the grantor controls or regulates the services the operator must provide under a service concession arrangement, the recipients and the pricing of the services; and
- (b) the initial measurement of the grantor's liability under a service concession arrangement at the fair value of the service concession assets acquired, rather than the fair value of a licence granted to the operator to charge users of the service concession assets together with any other assets transferred to the operator. This would require consideration of how to account for any difference between the two values. The Board considered the draft Standard should address the creation of licences by the grantor in connection with service concession arrangements.

The Board noted the IPSASB may decide to re-expose the draft Standard or parts of it, instead of approving it for issue. If the IPSASB decides to re-expose, the Board anticipates publishing the ED in Australia for comment. Furthermore, once the IPSASB finalises its Standard, the Board may issue an Australian ED that includes proposed requirements that may differ from the IPSASB's requirements.

4. NFP Public Sector Projects

The Board discussed correspondence with the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) in relation to priorities for Board projects of particular relevance to NFP public sector entities. The Board did not change project priorities as set out in its work program (August 2011), but decided to consult further with public sector constituents, including HoTARAC.

The Board noted its current project on control in the public sector will not include, until a later phase, consideration of the identification and treatment of administered items. This is because the initial focus of the project is on 'control of entities' issues.

The Board decided to publish a paper on its position regarding the adoption in Australia of IPSASB Standards.

5. Financial Reporting Implications of a Carbon Tax

The Board conducted a preliminary discussion of possible accounting implications of a future carbon price mechanism in the light of information available to date about the proposed Australian carbon price mechanism. The Board noted that different views may exist about the accounting treatment under existing Standards of transactions and other events associated with a future carbon tax during its fixed price phase.

The Board formed the tentative view that permits (carbon units) purchased or received free by an emitter are in the nature of assets. The Board asked staff to prepare an issues paper discussing in more detail the various accounting issues involved for both the emitter and the government during the fixed price phase,

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including possible treatments of permits and obligations arising from emissions, for consideration at a future Board meeting.

6. Minerals Resource Rent Tax (MRRT)

The Board received an education session on the proposed MRRT and discussed a draft staff work plan to address potential accounting implications that might arise from a MRRT. It is expected that the Board will next discuss this topic at its February 2012 meeting.

7. Consolidation – Investment Entities

The Board considered IASB ED/2011/4 *Investment Entities*, which was issued on 25 August 2011 for comment by 5 January 2012, with a view to agreeing the content of an AASB Preface, including specific AASB questions. The Board expects to issue the AASB Preface incorporating ED/2011/4 next week for comment by 30 November 2011.

The Board decided the AASB Preface should note, in broad terms, the range of entities that might fall within the scope of the IASB's proposals and outline those types of entities that might be affected by ED/2011/4, including entities that could be impacted because they would not meet the proposed criteria for 'investment entities'. The Board also decided to include a question for Australian constituents to identify the types of entities they consider might be affected and the costs and benefits, whether from a user or preparer perspective, they may experience depending on whether those types of entities meet the 'investment entities' criteria.

8. Financial Instruments

Hedge Accounting Update

The Board received an update on the IASB's deliberation of issues identified in respect of ED/2010/13 *Hedge Accounting* (which was incorporated into AASB ED 208 – now closed for comment) based on constituent feedback. Issues considered include:

- (a) the proposal to lift the restriction on applying hedge accounting to net positions consisting of forecast transactions that will affect profit or loss in different periods for foreign currency risk only;
- (b) the proposal to allow the designation of an 'aggregated exposure' as a hedged item without a specific restriction that the exposure and derivative that forms the 'aggregated exposure' be in a hedging relationship; and
- (c) the proposal to allow an irrevocable election to measure an 'own use' contract at fair value if doing so eliminates or significantly reduces an accounting mismatch.

The AASB will continue to monitor the development of this project.

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Deferral of Mandatory Effective Date of IFRS 9

The Board considered, for the purpose of making a submission, key issues arising from IASB ED/2011/3 *Mandatory Effective Date of IFRS 9* (incorporated into AASB ED 215) that requests comments on changing the mandatory date to 1 January 2015. Comments to the AASB are due by 7 October 2011 (and to the IASB by 21 October 2011).

Subject to considering any further submissions from AASB constituents on ED 215, the Board intends commenting to the IASB that the mandatory application date of IFRS 9 *Financial Instruments* should be determined only when the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* as a whole is near completion, and should allow sufficient time for entities to be able to present meaningful comparative information. The Board noted there are four more phases to the project to replace IAS 39 and is concerned about the implications of multiple re-issuances of IFRS 9, particularly for comparability of financial reporting across entities. Accordingly, the Board intends suggesting that the IASB considers limiting the number of re-issuances of IFRS 9 and the circumstances in which entities could early adopt an earlier version once a later version has been issued.

9. Leases

The Board received an update on the tentative decisions made by the IASB and the FASB in their July 2011 meeting on the Leases project. The Board decided none of those decisions gave it cause to write to the IASB expressing concerns, particularly given the IASB's decision to re-expose the Leases proposals in Q4 2011. However, the Board requested that staff raise concerns with IASB staff relating to the volume of disclosures being considered and the lessor model for consideration in finalising the IASB's revised ED.

10. Revenue from Contracts with Customers

The Board received an update on the tentative decisions made by the IASB and the FASB in their July 2011 meeting on the Revenue Recognition project. The Board decided none of those decisions gave it cause to express concerns to the IASB.

11. IFRS Annual Improvements

The Board discussed the amendments contained in its ED 213 *Improvements to IFRSs* (which incorporates the IASB's ED/2011/2) and formed views to be included in a submission to the IASB.

Board members were generally supportive of all the amendments proposed in ED/2011/2. However, it was agreed that a general comment should be made to the IASB cautioning against the use of a rules-based approach rather than a principles-based approach in the drafting of improvements.

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12. Superannuation Entities

The Board noted that staff are well advanced in redrafting the revised ED on financial reporting by superannuation entities for further consideration by the AASB's superannuation subcommittee, and expects it will be able to be issued for public comment in October 2011.

13. Differential Reporting

The Board received an update on the progress of the differential reporting research project by external consultants. The project was initiated to address the following issues:

- (a) whether the population of non-reporting entities has consistent characteristics; and
- (b) the nature of the accounting policies adopted by non-reporting entities.

The consultants provided some preliminary results in respect of the functionality of the reporting entity concept as set out in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* in distinguishing between entities that should prepare general purpose financial statements and those that need not. The consultants also reported their preliminary findings regarding the accounting policies disclosed as adopted in the special purpose financial statements of the lodging entities they have considered to date.

The research is continuing, and will include consideration of the quality of financial statements lodged by non-reporting entities, using industry-based analysis, and the change in the quality of such financial statements over time.

14. Interpretations Update

The Board received an update on stripping costs in the production phase of a surface mine, noting that the IFRS Interpretations Committee has developed IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and submitted it to the IASB for ratification at its September 2011 meeting.

The Board also received an update on the IFRS Interpretations Committee's tentative agenda decisions relating to business combinations involving newly formed entities, noting that the Chairman has written to the Committee expressing concern about the scope and implications of the decisions.

15. Reducing Complexity in Financial Reporting

The Board was informed of the developing thoughts of the Chairman on the topic 'Re-thinking Economic Decision-making, Disclosure and Presentation'. The Board noted the ideas have the potential to improve the quality of financial reporting in the longer term by providing some fundamental objectives-driven principles upon which performance reporting, including disclosures, could be based. The Board encouraged the Chairman to continue to develop his thinking. The Board also noted that other shorter-term strategies for

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reducing complexity in financial reporting are to work with other regulators to clarify the current regulatory regime and to encourage the IASB to resist adding voluminous disclosure requirements to IFRSs. No decisions were made.

16. IASB Agenda Consultation 2011

AASB Invitation to Comment ITC 25 has been issued for comment by 10 November 2011, incorporating the IASB Request for Views *Agenda Consultation 2011*. The IASB document is open for comment until 30 November 2011.

The Board identified preliminary thoughts on the IASB's Request for Views, including:

- (a) urging the IASB to focus on global IFRS adoption, rather than convergence with US GAAP;
- (b) supporting continued work on the Conceptual Framework;
- (c) encouraging a fundamental review of disclosure, presentation and Other Comprehensive Income;
- (d) emphasising the need to deal with projects at a broad level to help avoid inconsistent outcomes for similar items and as a way of making IFRSs more cohesive and less complex;
- (e) advocating that the IASB reviews existing IFRSs to identify those that are not needed; and
- (f) highlighting the need for some resources to be devoted to researching strategic issues.

17. Asian-Oceanian Standard-Setters Group (AOSSG)

The Board noted:

- (a) the AOSSG will conduct an informal meeting next week in conjunction with the National Standard Setters meeting;
- (b) the draft agenda for the third annual AOSSG meeting in Melbourne on 23 and 24 November 2011, and that members of the public are welcome join the audience for that meeting [people should register to attend at <http://www.aossg.org/meetings-and-events>]; and
- (c) Australia would chair the AOSSG from November 2011.

The AOSSG Vision Statement provides background for the November meeting:

http://www.aossg.org/docs/About_Us/Vision_Paper.pdf.

18. New Zealand Accounting Standards Board (NZASB)

The NZASB Chair, Michele Embling, reported on the accounting standard setting activities in New Zealand since the establishment of the new structure for standard setting on 1 July 2011. She advised that the

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principal work to date has focused on setting up the new structure, communicating with constituents and preparing for the introduction of a new Framework.

19. AASB Public Sector and NFP Private Sector Symposiums

The AASB held two symposiums, in Melbourne on Monday 15 August and in Sydney on Friday 19 August 2011, both well attended.

The Board noted the main issues raised by Symposium attendees, as summarised in the staff report, and decided each issue raised should be considered further as each relevant project is progressed. In relation to issues raised about the Service Performance Reporting project, the Board decided that, in light of developments since the project was initiated (including the establishment of the Australian Charities and Not-for-profits Commission [ACNC]), staff should prepare a paper for consideration by the Board to assist it in determining the project's future direction.

The Board acknowledged the potential benefits, particularly for charities, of an agreed financial reporting taxonomy and a single portal for communicating information to government or regulators. In that regard, the Board noted its liaison with the custodian of the XBRL financial reporting taxonomy in Australia and its planned ongoing liaison with the ACNC.

20. Board Membership

The Financial Reporting Council is about to advertise for nominations for appointment as AASB members to commence next year to replace members who have resigned or will have completed their terms.

21. Recently Approved Documents

Since last reported (15 July 2011), the Board has approved the following Standards:

Effective from 1 July 2011

- AASB 2011-5 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation.*

Effective from 1 July 2012

- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income.*

Effective from 1 January 2013

- AASB 10 *Consolidated Financial Statements;*
- AASB 11 *Joint Arrangements;*
- AASB 12 *Disclosure of Interests in Other Entities;*
- AASB 127 *Separate Financial Statements;*
- AASB 128 *Investments in Associates and Joint Ventures;*

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- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- AASB 13 *Fair Value Measurement*;
- AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*;
- AASB 119 *Employee Benefits*;
- AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*.

Effective from 1 July 2013

- AASB 2011-6 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements*; and
- AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements*.

Also, since last reported, the Board has approved the following consultation documents:

- ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*, open for comment until 31 January 2012;
- ED 216 AASB 12 *'Disclosure of Interests in Other Entities': Tier 2 proposals*, open for comment until 30 November 2011;
- ED 217 AASB 127 *'Separate Financial Statements': Tier 2 proposals*, open for comment until 30 November 2011;
- ED 218 *Presentation of Items of Other Comprehensive Income: Tier 2 Proposals*, open for comment until 5 December 2011; and
- ED 219 AASB 13 *'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13': Tier 2 Proposals*, open for comment until 5 December 2011.

In addition, the following documents were issued under the Board's delegated authority for the staff/Chairman to issue IASB consultation documents where there is no significant additional Australian material:

- ED 215 *Mandatory Effective Date of IFRS 9*, open for comment until 7 October 2011; and
- ITC 25 *Request for Comment on IASB Request for Views on Agenda Consultation 2011*, open for comment until 10 November 2011.

These documents are now available on the AASB website.

22. Documents Open for Comment

The following documents are open for comment. AASB submissions to the IASB, IFRS Interpretations Committee, IFRS Foundation or IPSASB are published on the AASB website.

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Improvements to IFRSs	ED 213	Closed	21 October 2011
AASB	Insurance Contracts: Tier 2 Supplement to ED 201	Tier 2 Supplement to ED 201	30 September 2011	-
IASB	Mandatory Effective Date of IFRS 9	ED 215	7 October 2011	21 October 2011
AASB	Not-for-Profit Entities within the General Government Sector	ED 212	31 October 2011 (Roundtables 3 & 4 October in Melbourne and Sydney)	-
IASB	Request for Comment on IASB Request for Views <i>Agenda Consultation 2011</i>	ITC 25	10 November 2011	30 November 2011
AASB	AASB 12 <i>Disclosure of Interests in Other Entities</i> : Tier 2 proposals	ED 216	30 November 2011	-
AASB	AASB 127 <i>Separate Financial Statements</i> : Tier 2 proposals	ED 217	30 November 2011	-
AASB	Presentation of Items of Other Comprehensive Income: Tier 2 Proposals	ED 218	5 December 2011	-
AASB	AASB 13 <i>Fair Value Measurement</i> and AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i> : Tier 2 Proposals	ED 219	5 December 2011	-
AASB	Users' Views Questionnaire on the Initial Accounting for Intangible Assets Acquired in Business Combinations	-	15 December 2011	-
AASB	Extending Related Party Disclosures to the Not-for-Profit Public Sector	ED 214	31 January 2012 (Roundtables 3 & 4 October in Melbourne and Sydney)	-

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23. Minutes

The Board approved the minutes of Meeting 118, held on 13-14 July. These are now available on the AASB's website.

Next Meeting – 26-27 October 2011

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

- Financial Instruments – update on IASB progress
- Leases – update on IASB progress
- Revenue from Contracts with Customers – update on IASB progress
- Insurance Contracts – update on IASB progress and consider responses to AASB Tier 2 proposals
- Service Performance Reporting
- Carbon Tax
- Service Concession Arrangements - Grantor
- Not-for-Profit Entities within the General Government Sector
- Extending Related Party Disclosures to the Not-for-Profit Public Sector

Future Meeting Dates

The remaining 2011 meeting dates are:

- 26-27 October
- 7-8 December

The 2012 meeting dates are:

- 15-16 February
- 14-15 March (if required)
- 18-19 April
- 6-7 June
- 25-26 July
- 5-6 September
- 24-25 October
- 12-13 December

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