



Issue: Number 154
Date: 2 November 2012
Subject: AASB Meeting 127, 31 October – 1 November 2012

1. Overview

At this meeting the Board discussed key issues relating to:

- (a) financial reporting by superannuation entities (see section 2); and
- (b) investment entities (see section 3).

The Board also:

- (c) continued to monitor IASB projects addressing leases (see section 4), revenue from contracts with customers (see section 5), and financial instruments (see section 6);
- (d) considered issues to raise in its submission on the IASB's post-implementation review of IFRS 8 *Operating Segments* (see section 7);
- (e) considered a possible emerging issue concerning the application of AASB 10 *Consolidated Financial Statements* to the insurance industry (see section 8);
- (f) considered an update on IFRS Interpretations Committee activities (see section 9);
- (g) considered a report on the September meeting of the IPSASB (see section 10);
- (h) considered issues to raise in its submission on ASIC Consultation Paper 187 *Effective disclosure in an operating and financial review* (see section 11);
- (i) considered an update on the activities of the AOSSG (see section 12); and
- (j) received a report from the Chairman on the IASB's impending proposal to form a Technical Forum comprised of national standard-setters and similar (see section 13).

Recently approved documents are listed in section 14, and documents open for comment are listed in section 15.

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2. Superannuation Entities

The Board considered issues papers on the measurement of accrued defined benefit liabilities of superannuation entities, disclosures about those liabilities, and issues arising in the context of public sector superannuation entities with defined benefit members.

The Board tentatively decided that:

- (a) an accrued defined benefit liability should be measured as the amount that would be needed at the reporting date to meet accrued benefits when they fall due on the basis of the risks specific to the liability, including member demographic risks and the investment returns relevant to fulfilling benefit outflows;
- (b) disclosures should be required about accrued defined benefit liabilities in relation to funding risks, liquidity risks and market risks (where relevant, using the principles underlying related requirements in other Standards); and
- (c) legislative guarantees to a superannuation entity in relation to meeting accrued defined benefits should be accounted for, by analogy, as financial assets under relevant financial instruments Standards.

The Board plans to consider these issues further after staff have undertaken additional targeted consultation.

3. Investment Entities

On day one of its meeting, the Board discussed the expected amendments to IFRSs subsequently issued by the IASB on day two of the meeting giving rise to the exemption from consolidation by investment entities.

The Board considered the approach it should take to those amendments in the Australian context.

In response to concerns about the loss of consolidation information that would result from the IFRS amendments, the Board tentatively decided to delay their adoption until after it undertakes due process through an ED to consider additional, compensating, note disclosures. Accordingly, the Board is yet to approve the amendments and therefore they are not currently available for early adoption.

In relation to the level of compensating disclosures, the Board tentatively decided that the ED should propose disclosure of the three primary financial statements that would be produced under full consolidation. The ED would seek input from constituents as to how those disclosures might be reduced without losing relevant information.

The Board directed staff to proceed with drafting an ED that clearly sets out the disclosures that would be required by the IASB for investment entities and the additional note disclosures that would be proposed by the AASB. The Board's aim is to issue the ED before the end of this year.

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4. Leases

The Board received an update on the discussion by the IASB and the FASB on their Leases project in their September meeting. The Board decided there were 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 several tentative decisions made by the IASB and the FASB at their September meeting, stemming from the Board's concerns with the single lease expense approach in general. These will be raised in a submission on the ED.

5. Revenue from Contracts with Customers

The Board received an update on the tentative decisions made by the IASB and the FASB on their Revenue from Contracts with Customers project in their September and October meetings. The Board expressed concern in relation to the general direction of the IASB/FASB discussion relating to the possible re-introduction of a collectibility threshold for revenue and the introduction of a number of rules-based requirements. The Board decided to write to the IASB regarding these concerns.

6. Financial Instruments

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments*. In particular, the Board noted the following:

- (a) the IASB's exposure draft on Limited Amendments to IFRS 9 is expected in Q4 2012. The ED is expected to propose:
 - introducing a fair-value-through-other-comprehensive-income category for debt instruments;
 - modifying the contractual cash flows test in IFRS 9; and
 - permitting the 'own credit risk' requirements (for financial liabilities measured at fair value through profit or loss) to be applied early without the need to apply early the requirements of IFRS 9 relating to financial assets;
- (b) the IASB staff findings from their outreach activities regarding whether the three-stage impairment model would be operational and which of the three-stage model and a day-one lifetime loss model would provide the more useful information. The IASB aims to issue a revised exposure draft by the end of 2012; and
- (c) the IASB had aimed to issue IFRS 9 including general hedge accounting requirements by the end of 2012. (However, the expectation is now that such timing is highly unlikely – feedback on the IASB's review draft of the general hedge accounting standard, which is currently available for information on the IASB's website, is expected to be discussed by the IASB at its January 2013 meeting.)

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AASB staff provided the Board with an overview of the significant changes in the abovementioned draft of the general hedge accounting standard compared with existing requirements in IAS 39 and IASB ED/2010/13 *Hedge Accounting*.

The Board tentatively decided that, consistent with the approach expected to be adopted by the IASB:

- (a) subject to the AASB agreeing to adopt the general hedge accounting requirements, a version of AASB 9 *Financial Instruments* that incorporates the requirements for general hedge accounting should be made available for early application; and
- (b) AASB 9 (2009) and AASB 9 (2010) should continue to be available for early application to first-time AASB 9 adopters, consistent with the IASB's early application provisions of IFRS 9.

The Board noted that the IASB has continued to discuss macro hedge accounting but has not yet made any decisions on the topic.

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

7. Post-implementation Review of IFRS 8 *Operating Segments*

In July 2012, the AASB issued Invitation to Comment ITC 27 seeking comments on the IASB's *Request for Information on Post-implementation Review: IFRS 8 Operating Segments*. The AASB also hosted an IASB discussion forum on the Request for Information in early October 2012.

The Board considered comments received from constituents and the issues that could form the basis of its submission to the IASB. The Board decided its submission should include comments that:

- (a) describe the effect of IFRS 8 on segment reporting by Australian entities;
- (b) the notion of identifying segments by reference to the review of information by the Chief Operating Decision Maker would be better expressed as a principle focusing on how an entity's business is organised and managed segmentally, rather than by reference to who receives information;
- (c) there is concern in Australia that the entity-wide disclosure requirements in IFRS 8 are often overlooked due to a perceived lack of relevance in a segment reporting context. The IASB is to be encouraged to review those requirements with a view to improving their application, possibly in the context of the entity-wide disclosure requirements of other Standards within a more broadly based disclosure framework; and
- (d) note concern about a possible tension between the application of requirements of IAS 36 *Impairment of Assets* and IFRS 8.

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8. Possible Emerging Issue – Application of AASB 10 to the Insurance Industry (AASB 1038)

The Board considered a staff paper on two issues relating to AASB 1038 *Life Insurance Contracts*: first, whether AASB 1038 might need to be amended for the revised consolidation requirements in AASB 10 *Consolidated Financial Statements*; and second, whether the terminology in AASB 1038 might need to be amended to align with forthcoming changes to prudential regulations regarding capital adequacy.

In relation to the first issue, the Board decided that staff should seek evidence to determine whether, in practice, there are cases where it is considered to be unclear whether IFRS 10 would require consolidation of policyholders' interests by a life insurer, with a view to determining whether the outcome under IFRS 10 would differ from that under AASB 1038.

The Board also acknowledged that AASB 1038 was not the logical place to cover consolidation issues and that, depending on the implications of IFRS 10 for consolidation of policyholders' interests by a life insurer and the timing of the IASB's Insurance project, AASB 1038 may need to be amended to excise the consolidation wording. Staff will consider what edits would be needed.

In relation to the second issue, the Board decided that staff should seek confirmation from industry participants that the proposed amendments to the terminology in AASB 1038 are appropriate. Subject to that confirmation, the Board decided that AASB 1038 should be amended, with an application date aligned to the application date of the forthcoming changes to prudential regulations. No further due process would be required.

9. IFRS Interpretations Committee

The Board received an update on the decisions (both tentative and final) made by the IFRS Interpretations Committee at its September meeting, and discussions of the Committee at that meeting. The Board expressed concern in relation to the direction of a number of the issues discussed by the Committee. However, the Board decided there were no issues that ought to be raised with the Committee at this stage.

10. IPSASB Report

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

- (a) the IPSASB approved exposure drafts on two major phases of its Conceptual Framework project – elements and recognition in financial statements, and measurement of assets and liabilities in financial statements – and gave initial consideration to the submissions received on its Consultation Paper on presentation in general purpose financial reports;

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- (b) the IPSASB approved its Consultation Paper on IPSASs and Government Finance Statistics (GFS) Reporting Guidelines;
- (c) progress on various IPSASB projects – long-term fiscal sustainability, service performance reporting, financial statement discussion and analysis, first-time adoption of IPSASs and an update of IPSASs on consolidation and joint arrangements; and
- (d) discussions between the IFAC, the Monitoring Group and its Public Interest Oversight Board regarding the establishment of oversight arrangements for the IPSASB should conclude in 2013.

The IPSASB next meets in December 2012.

11. ASIC Consultation Paper 187 *Effective disclosure in an operating and financial review*

The Board decided to make a generally supportive submission on the ASIC Consultation Paper. The submission will encourage ASIC to consider the existing guidance in the Group of 100's *Guide to Review of Operations and Financial Condition* and the IASB's IFRS Practice Statement *Management Commentary*, with a view to removing duplication and any inconsistencies across what would otherwise become three documents providing guidance on similar matters.

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

The Chairman advised the Board of the recent informal meeting of the AOSSG. The annual meeting will be held in Kathmandu on 28 – 29 November 2012. The IASB will be sending representatives and also hosting a regional technical conference on 30 November.

13. International Forum of Accounting Standard Setters (IFASS)

The Chairman reported on various discussions at the recent IFASS meeting. In particular, he advised that the IASB is about to circulate proposals for a Technical Forum made up of twelve members. (The IFRS Foundation has subsequently issued Invitation to Comment *Proposal to Establish an Accounting Standards Advisory Forum* – for comment by 17 December 2012.) It is proposed that those members be drawn from national standard-setters in the Americas, Europe, Asia-Oceania, and Africa, with two more members from “the world at large”. He advised that this forum was a very significant change aimed at involving national standard-setters earlier in the due process. He expected that seats in the new forum would be much sought after and that probably three members would come from Asia-Oceania.

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14. Recently Approved Documents

Since the last Board meeting (5 – 6 September 2012), the Board has approved out of session the following Standard(s) or consultation document(s):

- ED 227 *Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms*;
- AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*; and
- AASB 2012-7 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*.

15. 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.

Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IASB	Post-implementation Review: IFRS 8 <i>Operating Segments</i> (Request for Information)	ITC 27	closed	16 November 2012
FASB	FASB: Disclosure Framework (Discussion Paper)	–	–	16 November 2012
AASB	Withdrawal of Australian Interpretation 1039 <i>Substantive Enactment of Major Tax Bills in Australia</i>	ED 226	19 November 2012	–
AASB	Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms	ED 227	19 November 2012	–
ASIC	Effective disclosure in an operating and financial review (Consultation Paper 187)	–	–	23 November 2012
IASB	Comprehensive Review of the <i>IFRS for SMEs</i> (Request for Information)	–	–	30 November 2012

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
CICA	Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities (Research Paper)	–	–	30 November 2012
IFRS Foundation	Proposal to Establish an Accounting Standards Advisory Forum (Invitation to Comment)	–	–	17 December 2012
EFRAG	Towards a Disclosure Framework for the Notes (Discussion Paper)	–	–	31 December 2012
IPSASB	IPSASs and Government Finance Statistics Reporting Guidelines (Consultation Paper)	–	–	31 March 2013

16. Board Minutes

The Board approved the minutes of Meeting 126, held on 5-6 September 2012. These are now available on the AASB's website.

17. Next Meeting – 12 - 13 December

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

- Investment Entities
- Superannuation Entities
- Financial Instruments
- Revenue from Contracts with Customers
- Service Concession Arrangements – Grantors
- Defence Weapons Platforms (ED 227)
- Substantive Enactment of Major Tax Bills in Australia (ED 226)
- IASB Annual Improvements 2011 – 2013
- Application of AASB 10 to Life Insurers
- EFRAG Discussion Paper: Disclosure Framework for the Notes
- Differential Reporting Research Project
- IFRS Foundation's Proposal to Establish an Accounting Standards Advisory Forum

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18. Future Meetings

The remaining 2012 meeting date is:

- 12-13 December

The 2013 meeting dates are:

- 20-21 February
- 10-11 April
- 29-30 May
- 17-18 July
- 4-5 September
- 23-24 October
- 11-12 December

Unless indicated otherwise, meetings are held in Melbourne.

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