



Issue: Number 159
Date: 19 July 2013
Subject: AASB Meeting 132, 17-18 July 2013

1. Overview

At this meeting the Board discussed:

- (a) an update on financial instruments, including the key issues relating to classification and measurement, impairment, general hedge accounting and macro hedge accounting (see section 2);
- (b) the key issues to raise in its submission on IASB ED/2013/5 *Regulatory Deferral Accounts* (see section 3);
- (c) the key issues to raise in its submission on IASB ED/2013/4 *Defined Benefit Plan: Employee Contributions* (see section 4);
- (d) an overview of AASB ED 242 *Leases* (see section 5);
- (e) an update on the IASB's Insurance Contracts project and an overview of the plans for consultation with Australian constituents (see section 6);
- (f) how Interpretation 21 *Levies*, if applicable might affect the accounting in the fixed phase of the Carbon Pricing Mechanism (CPM) (see section 7);
- (g) an update on IFRS Interpretations Committee activities (see section 8);
- (h) the IASB's Conceptual Framework project, specifically the definitions of the elements of financial statements, and recognition of those elements (see section 9);
- (i) the key issues to raise in its submission on IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports* (see section 10); and
- (j) a report on the June 2013 meeting of the IPSASB (see section 11).

The Board also noted that the regulatory process is underway in preparation for the issue of the AASB's Standard on Investment Entities, which is expected to be completed shortly, ready for balloting by the Board.

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Recently approved documents are listed in section 12 and documents open for comment are listed in section 13.

2. 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* relating to classification and measurement, impairment, general hedge accounting and macro hedge accounting.

The Board noted:

- (a) the IASB discussed the feedback on IASB ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* at its June 2013 meeting. No decisions were made;
- (b) the further comment letters it had received from constituents on AASB ED 237 (which incorporated IASB ED/2013/3 *Financial Instruments: Expected Credit Losses*) and its final submission to the IASB on that Exposure Draft;
- (c) the IASB's forthcoming general hedge accounting requirements in IFRS 9 are expected to be issued in the third quarter of 2013; and
- (d) an IASB Discussion Paper on macro hedge accounting is expected in the second half of 2013.

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

3. Regulatory Deferral Accounts

The Board considered preliminary staff views on IASB ED/2013/5 *Regulatory Deferral Accounts* [open for comment until 4 September 2013] and noted that the proposals, if adopted in Australia, would not be expected to have an impact on Australian entities. Nevertheless, the Board decided that it would provide comments to the IASB, to assist the IASB in making a decision on whether it should proceed with the introduction of an interim standard for entities with rate-regulated activities.

Subject to any additional issues identified in comment letters received by the Board in response to AASB ED 240 (which incorporates IASB ED/2013/5 and is open for comment until 5 August 2013), the Board intends expressing concerns to the IASB that the proposal to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities could result in the IASB inappropriately setting a precedent of introducing additional interim standards for first-time adopters of IFRS to encourage transition to IFRS. The

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Board also expressed concern that the IASB proposals would reduce comparability between first-time adopters of IFRS that choose to apply the proposals and those that already apply IFRS or first-time adopters of IFRS that do not elect to apply the proposals.

4. Defined Benefit Plans: Employee Contributions

The Board considered the comments it received on AASB ED 239 *Defined Benefit Plan: Employee Contributions* (which incorporates IASB ED/2013/4 and is open for comment to the IASB until 25 July 2013). The Board expressed concern that there is insufficient clarity in the background and justification in the IASB ED to form a view on the proposals, particularly those relating to the proposed treatment of employee contributions to a defined benefit plan that are linked solely to the employee's service rendered in the same period in which the payments are made. Accordingly, the AASB decided to convey its concern to the IASB through its submission on the IASB ED.

5. Leases

The Board held preliminary discussions on AASB ED 242 *Leases*, which is open for comment until 13 August 2013 (and incorporates IASB ED/2013/6, which is open for comment until 14 September 2013). No decisions were made.

The AASB will hold roundtable discussions on ED 242 in Melbourne (7 August 2013) and Sydney (8 August 2013). IASB staff are likely to attend the Melbourne and Sydney roundtables. Ian Mackintosh, IASB Vice Chairman has indicated he will attend both roundtables in person.

AASB staff plan to provide an issues paper on the IASB's proposals for the Board's consideration at the September AASB Board meeting.

6. Insurance

The Board received an update on the IASB's Insurance Contracts project and an overview of the plans for consultation with Australian constituents. No decisions were made.

The IASB has issued ED/2013/7 *Insurance Contracts* on 20 June 2013 (open for comment until 25 October 2013) as a revision of its ED/2010/8 *Insurance Contracts* issued in June 2010. The AASB issued ED 244 *Insurance Contracts* (incorporating IASB ED/2013/7) on 27 June 2013, open for comment until 27 September 2013.

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The model proposed in ED/2013/7 includes some significant differences from the model proposed in ED/2010/8. They include proposed requirements on: remeasurement of contractual service margins; presentation of insurance contract revenues and expenses; presentation of changes in discount rates in other comprehensive income; and retrospective application on transition.

There are further proposals on which the IASB is not explicitly seeking comment that could have significant implications for Australian practice, including the proposals on 'contract boundary' and acquisition costs.

The AASB will hold roundtable discussions on ED 244 in Melbourne (12 September 2013) and Sydney (3 September 2013). The Melbourne roundtable will be held jointly via videoconference with the New Zealand Accounting Standards Board's Auckland roundtable. IASB staff and IASB Board members are likely to join the Sydney roundtable by videoconference. Ian Mackintosh, IASB Vice Chairman has indicated he will attend the Sydney roundtable in person.

AASB staff plan to provide an issues paper on the IASB's proposals for the Board's consideration at the September AASB Board meeting.

7. Interpretation 21 Levies

Further to issuing IFRIC 21 *Levies* unamended in Australia as Interpretation 21 *Levies* and following the Boards discussions in April 2013 the Board considered how the Interpretation, if applicable, might affect the accounting in the fixed price phase of the Carbon Pricing Mechanism (CPM). The Board came to the tentative view that judgement would be required in determining how the threshold criterion included in the Interpretation would be applied in recognising carbon emission liabilities, at least in some circumstances (for example, when there is separation, by some periods, between the act that causes emission and emissions taking place in a period to which thresholds apply).

The Board noted that, depending on how the Interpretation's scope exclusion is applied, the Interpretation might be read as requiring a liability to be recognised when, and only when, the annual threshold level of emission specified in the legislation is met by a continuing entity. An alternative view is that the obligating event is the emitting of carbon and a liability is recognised when it is probable the annual threshold will be exceeded.

The Board also noted that how broadly the term 'threshold' is interpreted is a matter of judgement. Conceivably it could be seen to embrace, in principle, vesting of long service leave and pension entitlements.

The Board decided that its concerns about Interpretation 21 should be raised with the IFRS Interpretations Committee citing various examples of analogous circumstances, not limited to the CPM, such as some

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State-based payroll taxes. The Board also decided to inform constituents that, in the meantime, issuer entities would need to use judgement in considering the potential effect of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21.

In that regard, the Board noted the AASB staff paper entitled *Possible Financial Reporting Implications of the Fixed Price Phase of the Carbon Pricing Mechanism for Issuer Entities* published on the AASB website in July 2012 (updated April 2013) sets out AASB staff's view of how AASB 137 might be applied in recognising emission liabilities under the fixed price phase of the CPM. Because the staff paper was written prior to the release of Interpretation 21, the Board suggested staff add a note to that paper cautioning about the above matters.

8. IFRS Interpretations Committee Update

The Board received an update on recent IFRS Interpretations Committee activities and decided that, with the exception of IFRIC Interpretation 21 *Levies* (see Item 7 above), there were no issues that need to be raised with the Committee at this stage.

9. IASB Conceptual Framework Project Update

The Board noted the expected publication date of the IASB Discussion Paper (DP) of a revised Conceptual Framework is 18 July 2013, London time [the DP was issued on that date]. The IASB DP is expected to have a comment period ending on 14 January 2014. At this meeting, the AASB conducted a non-deliberative, educational session on IASB staff papers preceding the draft DP, covering the definitions of the elements of financial statements, and recognition of those elements. No decisions were made. The Board noted the IASB is not seeking comments on the chapters already issued on the Objective and Qualitative Characteristics, or further comments on the 2010 ED of a Reporting Entity chapter.

The Board will hold further sessions on the DP at future meetings. In addition, the DP will be incorporated into an AASB Invitation to Comment (ITC) and published shortly. Furthermore, the Board will conduct forums on the ITC during the comment period (preferably in October). The dates of those forums will be announced in an AASB web alert and included in the next AASB *Action Alert*.

10. IPSASB Conceptual Framework Project Update

The Board discussed the key issues to raise in its submission on IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports*, on which submissions are due to the IPSASB by 15 August 2013. The IPSASB ED describes 'presentation' as encompassing the selection, location and organisation of information in a general purpose financial report (GPFR).

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The Board tentatively decided to express the following views on the IPSASB ED, subject to considering any comments it might subsequently receive from constituents:

- (a) the ED should be regarded as the first stage of a larger exercise and therefore should only form the basis of a Conceptual Framework chapter on 'Presentation' if the IPSASB commits to reviewing and updating that chapter on a timely basis in light of the outcomes of various international projects on presentation and/or disclosure currently in progress (including the IASB's work on concepts for presentation and disclosure as part of its Conceptual Framework project—see the brief report on that project in Item 9 of this Action Alert). It would not be appropriate for an IPSASB chapter based on the ED to be considered the completion of the IPSASB's concepts on 'presentation', because the ED does not include sufficient principles that would be useful in answering the 'presentation' questions the ED identifies;
- (b) to avoid confusion and unnecessary change, presentation should not be the overarching term that encompasses the selection, location and organisation of information in a GPFR: either 'display' or 'disclosure' (whichever is more generally accepted) should be used, as these are more descriptive of the underlying notions; and
- (c) the IPSASB's chapter on 'Presentation' should clarify more effectively than in the ED that:
 - (i) some information in a GPFR is more critical than other information;
 - (ii) how information is displayed can affect its interpretation by users; and
 - (iii) information shown on the face of a financial statement is not necessarily more critical than information shown in a note. Related to the point in paragraph (ii) above, the chapter should note that disclosure in notes will not apparently remedy non-recognition or poor recognition of elements of financial statements.

11. IPSASB Update

The Board received a report on the June 2013 meeting of the IPSASB, particularly noting the following:

- (a) the IPSASB approved for issue its first two Recommended Practice Guidelines: RPG 1 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* and RPG 2 *Financial Statement Discussion and Analysis*. (The IPSASB issues RPGs (rather than mandatory IPSASs) to address areas of financial reporting other than general purpose financial statements.) The two RPGs are expected to be issued in July. In light of RPG 1, the Board (AASB) decided to explore financial

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sustainability to see whether to add a project to its work program, noting that it would have links to other topics, such as financial performance;

- (b) the IPSASB carried out a preliminary review of the submissions received on its Conceptual Framework Exposure Drafts concerning elements and recognition, and measurement. The IPSASB confirmed that, although its Conceptual Framework project is not an IFRS convergence project, it would aim to avoid unnecessary differences from the IASB's conceptual framework;
- (c) progress on various IPSASB projects – reporting service performance information (RPG), first-time adoption of IPSASs, an update of its IPSASs on consolidation and joint arrangements, government business enterprises, and IPSASs and GFS reporting guidelines;
- (d) two projects were added to the IPSASB's work program for commencement during 2013-2014: social benefits, and emission trading schemes. The latter project is intended to be a collaborative research project with the IASB; and
- (e) an IPSASB Governance Review Group has been established to address possible oversight and governance arrangements for the IPSASB. The Group is chaired by the IMF, the OECD and the World Bank.

The IPSASB next meets in September 2013.

12. Recently Approved Documents

Since the last Board meeting (29-30 May 2013), the Board has approved out of session the following Exposure Drafts, Standards and Interpretation:

- (a) ED 230 *Classification and Measurement: Limited Amendments to AASB 9 – Tier 2 Supplement*;
- (b) ED 237 *Financial Instruments: Expected Credit Losses – Tier 2 Supplement*;
- (c) ED 243 *Withdrawal of AASB 1031 Materiality*.
- (d) AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*;
- (e) AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*; and
- (f) Interpretation 21 *Levies*.

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In addition, the following consultation documents were issued under the Board's policy of delegated authority for the Chairman to issue consultation documents where there is no significant additional Australian material. They are:

- (a) ED 244 *Insurance Contracts*.
- (b) ED 245 *Bearer Plants*.

13. 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	Defined Benefit Plans: Employee Contributions (proposed amendments to IAS 19) (Exposure Draft)	ED 239	24 June 2013	25 July 2013
IASB	Regulatory Deferral Accounts (Exposure Draft)	ED 240	5 August 2013	4 September 2013
AASB	Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders (Exposure Draft)	ED 241	7 August 2013	–
IASB	Leases (Exposure Draft)	ED 242	14 August 2013	13 September 2013
AASB	Withdrawal of AASB 1031 <i>Materiality</i> (Exposure Draft)	ED 243	23 August 2013	–
AASB	Financial Instruments: Expected Credit Losses (Tier 2 Supplement)	ED 237	16 September 2013	–
AASB	Classification and Measurement: Limited Amendments to AASB 9 (Tier 2 Supplement)	ED 230	16 September 2013	–
IASB	Insurance Contracts (Exposure Draft)	ED 244	27 September 2013	25 October 2013
IASB	Bearer Plants (Exposure Draft)	ED 245	1 October 2013	28 October 2013

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Originating Organisation	Document	AASB No.	AASB Due Date	Other Organisation Due Date
IPSASB	Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports (Exposure Draft)	–	–	15 August 2013

14. Board Minutes

The Board approved the minutes of Meeting 131, held on 29-30 May 2013. These are now available on the AASB's website.

15. Next Meeting 4-5 September 2013

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

- Financial Instruments
- IASB Conceptual Framework
- Leases
- Insurance
- Bearer Plants
- IASB's Disclosure Feedback Statement
- IASB's Post-implementation Review of IFRS 8 *Operating Segments*
- Emissions Trading Schemes
- Consolidation – Not-for-Profit Entities

16. Future Meetings

The remaining 2013 meeting dates are:

- 4-5 September
- 23-24 October
- 11-12 December

All meetings are scheduled to be held in Melbourne.

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