



Subject: Minutes of the 130th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 10 April 2013 from 9.00 a.m. to 5.00 p.m. (quorum present)
5.00 p.m. to 5.30 p.m. (quorum not-present)

All agenda items except items 1 and 6 were discussed in public, item 8 was not used.

Attendance

Members	John O'Grady (Deputy Chairman and Chairman for this meeting) Victor Clarke Anna Crawford Peter Gibson Liane Papaelias Brett Rix Roger Sexton Robert Williams
Apologies	Peter Carlson Michelle Embling Jayne Godfrey Ian McPhee (Deputy Chairman) Carmen Ridley Kevin Stevenson (Chairman)
In Attendance: Staff	Clark Anstis (in part) Glenn Brady (in part) Nikole Gyles (in part) Kala Kandiah (in part) Ahmad Hamidi Ravari (in part) Robert Keys Jim Paul (in part) Julie Smith Shaun Steenkamp (in part) Angus Thomson
Observer	Tim Youngberry (IPSASB) (during the afternoon session)



Agenda, Declaration of Interests and Chairman's Report

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 declarations were made.

Chairman's Report

Accounting Standards Advisory Forum (ASAF)

The Chairman noted that the first ASAF meeting was held in London on 8-9 April. The AASB Chairman and an AASB staff member attended the meeting. Key items on the agenda were the conceptual framework and financial asset impairment. Two more ASAF meetings will be held in 2013, scheduled for 25-26 September and 5-6 December.

Financial Reporting Council (FRC)

The Chairman noted that:

- (a) at its March meeting the FRC had agreed with the AASB's proposal not to proceed with issuing a standard on phase 2 of the direction on GAAP/GFS harmonisation given the costs and benefits of the proposals;
- (b) AASB members had been provided with a copy of the FRC's 2013-2016 strategic plan for comment – any comments should be provided to the Board Secretary who would forward them to the FRC secretariat;
- (c) in future AASB staff will explicitly bring to the attention of the FRC Public Sector Task Force Standing Committee items on the AASB's agenda that are expected to be significant from a public sector perspective; and
- (d) the Australian Council of Auditors-General's Financial Reporting and Auditing Committee had provided feedback to the AASB staff that some jurisdictions had expressed some concerns about the impact of the new standard on Budgetary Reporting on entities within the General Government Sector.

Treasury

The Chairman noted that:

- (a) the Commonwealth and HoTARAC are developing differential reporting initiatives; and
- (b) the AASB staff are consulting with the Australian Charities and Not-for-profits Commission (ACNC) on its proposed 2014 Annual Information Statement in which charities would be required to disclose financial and non-financial information to the ACNC.



IASB

The Chairman noted that:

- (a) the AASB appears to have been influential in the IASB's recent decision to permit early adoption of its proposed standard on revenue from contracts with customers (see agenda paper 3.7); and
- (b) the IASB had released ED/2013/2 *Financial Instruments: Expected Credit Losses*. The Board requested that AASB staff develop and send to Board members detailed and summary material on the FASB impairment model and material comparing the FASB and IASB models.

AOSSG/IFASS

The Chairman noted that:

- (a) the AOSSG has formed an ASAF working party. AASB staff have been involved in a conference call to discuss the AOSSG's position on the IASB's Conceptual Framework project; and
- (b) the next IFASS meeting will be held on 17-18 April in Brazil. The AASB Chairman and an AASB staff member will attend the meeting.

Other

The Chairman also noted:

- (a) AASB staff have provided comments on the ABS review of the GFS manual (and a copy of those comments are provided in agenda paper 3.3); and
- (b) AASB staff are in the process of implementing the new staffing structure. The transition is expected to formally commence on 1 July 2013.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for the meeting for Peter Carlson, Michelle Embling, Jayne Godfrey, Ian McPhee, Carmen Ridley and Kevin Stevenson.

Minutes

The Board approved the minutes of the one hundred and twenty ninth meeting held on 20-21 February 2013. There were no matters arising not otherwise addressed as part of the agenda.

Approvals Out of Session

In relation to agenda paper 2.2, the Board noted that since the last Board meeting (20-21 February 2013), the Board has approved out of session the following Standards and Exposure Draft:

- (a) AASB 1055 *Budgetary Reporting*;
- (b) AASB 2013-1 *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements*;



- (c) AASB 2013-2 *Amendments to AASB 1038 – Regulatory Capital*; and
- (d) *ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities*.

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

- (a) *ED 236 Novation of Derivatives and Continuation of Hedge Accounting*, which incorporated IASB ED/2013/2;
- (b) *ED 237 Financial Instruments: Expected Credit Losses*, which incorporates IASB ED/2013/3;
- (c) *ED 239 Defined Benefit Plans: Employee Contributions*, which incorporates IASB ED/2013/4; and
- (d) *ITC 28 Invitation to Comment on IASB Request for Information on Rate Regulation*, which incorporates the IASB Request for Information.

There were no other approvals out of session.

Other Business

Agenda Item 3

The Board noted:

- (a) a memorandum from Julie Smith and Robert Keys dated 25 March 2013 re: AASB Work Program (agenda paper 3.1);
- (b) summary of AASB Work Program (March 2013) (agenda paper 3.1.1);
- (c) detailed AASB Work Program (March 2013) (agenda paper 3.1.2);
- (d) Submissions Pipeline Report (25 March 2013) [Board only] (agenda paper 3.1.3);
- (e) AASB Sub-committee membership listing as at 25 March 2013 [Board only] (agenda paper 3.2) showing tentative allocations to new Board members;
- (f) AASB staff comments on the ABS review of ABS GFS Manual, March 2013 (agenda paper 3.3);
- (g) letter from AASB Chairman and CEO to Rob Reilly, Specialist Advisor, Department of Finance and Deregulation dated 14 March 2013 re Comments on draft Handbook (agenda paper 3.4);
- (h) letter from AASB Chairman and CEO to General Manager, Corporations and Capital Markets Division, The Treasury dated 12 March 2013 re ED Corporations Amendment (Remuneration Disclosures and other Measures) Bill 2012 (agenda paper 3.5);
- (i) letter from AASB Chairman and CEO to IASB Chairman dated 19 March 2013 re IASB ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* (agenda paper 3.6);



- (j) letter from AASB Chairman and CEO to IASB Chairman dated 14 March 2013 re Effective Date and Early Application of the new Revenue Standard (agenda paper 3.7);
- (k) Memorandum from Christina Ng and Sue Lightfoot dated 26 March 2013 re Financial Instruments: Project Update (agenda paper 3.8);
- (l) IASB Snapshot of ED/2013/3 *Financial Instruments: Expected Credit Losses* (agenda paper 3.8.1);
- (m) IASB Investor Perspectives article on ED/2013/3 (agenda paper 3.8.2);
- (n) comment letter on ED 236 *Novation of Derivatives and Continuation of Hedge Accounting* from CPA Australia and the Institute of Chartered Accountants Australia [sub 1] (agenda paper 3.8.3);
- (o) comment letter on ED 236 *Novation of Derivatives and Continuation of Hedge Accounting* from Finance and Treasury Association [sub 2] (Tabled agenda paper 3.8.3);
- (p) comment letters on ED 230 *Classification and Measurement Limited Amendments to AASB 9* from National Australia Bank and Australian Prudential Regulatory Authority [subs 3-4] (agenda paper 3.8.4);
- (q) comment letters on ED 230 *Classification and Measurement Limited Amendments to AASB 9* from ANZ Bank and Macquarie Bank [subs 5-6] (Tabled agenda paper 3.8.4);
- (r) comment letter from AASB to the IASB re ED/2012/4 *Classification and Measurement Limited Amendments to AASB 9* (Tabled agenda paper 3.8.5);
- (s) letter from the AASB to the IASB in response to ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting* dated 5 April 2013 (Tabled agenda paper 3.9);
- (t) Communications Report 21 February 2013 – 9 April 2013 [BOARD ONLY] (Tabled agenda paper 3.10);
- (u) Memorandum from Jim Paul dated 25 March 2013 re AASB submission made on IASB ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* (agenda paper 3.11);
- (v) AASB submission made on IASB ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* (dated 19 March 2013) (agenda paper 3.11.1);
- (w) Ernst and Young's global submission on IASB ED/2013/1 (incorporated within AASB ED 235) dated 26 March 2013 [sub 3] (Tabled agenda paper 3.11.2);
- (x) comment letter on AASB ED 235 *Recoverable Amount Disclosures for Non-Financial Assets*; (incorporating IASB ED/2013/1) from the Joint Accounting Bodies dated 1 March 2013 [sub 2] (agenda paper 3.11.2);
- (y) ASIC Regulatory Guide 247 *Effective Disclosure in an operating and financial review* (Tabled agenda paper 3.12); and
- (z) letter from Kevin Stevenson, AASB Chairman to IASB Chairman dated 2 April 2013 re IASB ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation* (Tabled agenda paper 3.13).



IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

- (a) a memorandum re IFRS Interpretations Committee Update from Kala Kandiah and Julie Smith dated 27 March 2013 (agenda paper 4.1);
- (b) an AASB staff summary and a brief analysis of IFRS Interpretations Committee March 2013 decisions (agenda paper 4.2); and
- (c) IFRIC Update March 2013 (agenda paper 4.3).

The Board considered the decisions (both tentative and final) made by the IFRS Interpretations Committee at its March meeting, and discussions of the Committee at that meeting.

The Board particularly noted the Committee's deliberations on:

- (a) IFRS 3 *Business Combinations* – Accounting for contingent consideration in a business combination, where the Committee decided to recommend to the IASB that it should proceed with an amendment to IFRS 3 requiring that all changes to fair value of contingent consideration be presented in profit or loss. The Committee's recommendation to the IASB is different from the proposals in IASB ED/2012/1 *Annual Improvements to IFRSs 2010 – 2012 cycle* (which the AASB supported) that changes in fair value of contingent consideration be presented in either profit or loss or other comprehensive income consistent with IFRS 9 *Financial Instruments*. The Board noted that the Committee's recommendation was made after considering feedback from constituents on ED/2012/1 and accepted that it promotes a simple and consistent approach in application; and
- (b) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Interpretation on Levies, and decided to monitor the development of the Interpretation and consider any scope implications of the Interpretation at a future meeting.

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

Action: Staff

Emerging Issues

Agenda Item 5

The Board had before it:

- (a) a memorandum re update on AASB ED 233 *Australian Additional Disclosures – Investment Entities* from Kala Kandiah and Angus Thomson dated 26 March 2013 (Tabled agenda paper 5.1); and
- (b) a preliminary summary of submissions received on ED 233 dated 8 April 2013 (agenda paper 5.2).



The Board noted the preliminary summary of submissions received on ED 233 and that it will receive a comprehensive analysis and collation of submissions for consideration at its next meeting.

Action: Staff

Review

Agenda Item 6

A quorum was not present for this item.

Board members present noted agenda paper 6.1 AASB Strategic Plan 2012 to 2016 – Cumulative Progress Report, as at March 2013.

In relation to Board discussions of Conceptual Framework issues items 12 and 13 the Board members present expressed a view that given the nature of such topics, more time should be allocated to allow for education and more extensive discussion.

Superannuation Entities

Agenda Item 7

The Board had before it:

- (a) a memorandum from Angus Thomson and Shaun Steenkamp dated 26 March 2013 (agenda paper 7.1);
- (b) staff paper: Differential general purpose financial reporting for superannuation entities whose only assets are insurance policies that match liabilities (agenda paper 7.2);
- (c) staff paper: Presentation of a statement of changes in reserves/equity by superannuation entities (agenda paper 7.3);
- (d) staff paper: Risk disclosures about accrued benefit liabilities by superannuation entities (agenda paper 7.4);
- (e) staff paper: Disclosure of disaggregated information by superannuation entities (agenda paper 7.5);
- (f) staff paper: Superannuation entities – insurance arrangements (agenda paper 7.6); and
- (g) staff paper: Transition and application date of a replacement standard for AAS 25 – superannuation entities (agenda paper 7.7).

The Board considered the staff papers and noted they cover matters that need to be resolved to enable staff to prepare a pre-ballot draft replacement standard for *AAS 25 Financial Reporting by Superannuation Plans*.

The Board tentatively decided:

- (a) in relation to agenda paper 7.2, APRA-regulated superannuation entities whose only assets are insurance policies that match liabilities should be required to apply the draft replacement standard in full, rather than being relieved from some of the requirements of that standard. In making this



decision, the Board noted that, while the relevant insurance policies are reported on by the relevant insurer(s) in the wider context of the insurer(s) operations and it can be argued the risks relating to the policies have been transferred to the insurer(s):

- (i) in the superannuation context, there is a trustee charged with addressing the interests of members and the plan itself is the primary obligor in relation to the members;
 - (ii) many of these entities are large in terms of assets and member numbers;
 - (iii) many of these entities are 'public offer funds'; and
 - (iv) they are APRA-regulated entities;
- (b) in relation to agenda paper 7.3, the replacement standard should specify the presentation of a separate statement of changes in equity/reserves. In making this decision, the Board:
- (i) noted that reserves not yet allocated to members are equity in nature and that the Stronger Super reforms will lead to there being more reserves;
 - (ii) noted that reserves are a potentially significant issue from the perspective of inter-generational equity between members; and
 - (iii) also decided that the Basis for Conclusions should include the Board's deliberations on materiality in the context of statements of changes in equity/reserves, noting that there might be cases where the equity/reserves are not material (for example, for some public sector plans) and in such cases a statement is not needed and/or note disclosure of reserves or a narrative on reserves would be sufficient;
- (c) in relation to agenda paper 7.4, the Board confirmed its earlier decision that the disclosures about credit risk, market risk and liquidity risk in *AASB 7 Financial Instruments: Disclosures* are relevant for defined contribution liabilities. However, in relation to defined benefit liabilities, instead of AASB 7, disclosure should be required of:
- (i) information on policies for managing benefit liabilities and related deficits/surpluses. In making this decision, the Board noted that:
 - (A) although this type of information is provided in actuarial reports, those reports are not usually framed from the viewpoint of the superannuation entity as a whole;
 - (B) superannuation entities would be expected to provide information on their policies and processes for dealing with the various circumstances that arise in relation to identifying appropriate investment strategies for meeting benefit payments, the need for liquidity, and dealing with under-funding or over-funding – they would not be expected to opine on the creditworthiness of employer-sponsors; and
 - (C) there might be a need to provide disclosure by sub-plan in circumstances where that would help to show how benefit liabilities and related deficits/surpluses are managed; and



- (ii) each significant assumption, a sensitivity analysis of each significant assumption, the basis or methodology for determining each significant assumption (where that is relevant to understanding the assumptions) and any significant changes to the basis or method from the previous period. In making this decision, the Board noted that:
 - (A) the discount rate assumption(s) would be expected to be significant, particularly since identifying the discount rate that the Board (at its October-November 2012 meeting) has decided to require in measuring accrued defined benefit liabilities would potentially involve a significant level of judgement to be exercised;
 - (B) depending on the circumstances, there might be significant assumptions in respect of salary adjustments, retirements, resignations, mortality, disability and pension index rates, some of which will have a generally understood basis or methodology and some of which would need to be explained;
 - (C) in an entity with multiple defined benefit plans, it might be necessary to disclose significant assumptions in the form of weighted averages or relatively narrow ranges, or there might be a need to provide disclosure by sub-plan; and
- (iii) the impact of changes from the previous period, separately in respect of demographic assumptions and financial assumptions. In making this decision, the Board noted that:
 - (A) separate disclosure of the impacts can provide useful information in understanding the underlying trends affecting defined benefit liabilities; and
 - (B) in some cases, the only material impacts of changes from previous periods would be in respect of financial assumptions;
- (d) in relation to the decisions outlined in (c):
 - (i) the Basis for Conclusions should include the Board's deliberations on materiality, including the acknowledgment that, particularly in some large multi-plan entities, information about defined benefit liabilities might not be material compared with the defined contribution liabilities; and
 - (ii) the illustrative examples should include example disclosures in a multi-plan superannuation entity context;
- (e) in relation to agenda paper 7.5, there should be no specific disaggregated information disclosure requirements, but there should be a general requirement to disclose disaggregated information when that would help to explain the risks to which different categories of members are exposed. In making this decision, the Board:
 - (i) noted that AASB 8 *Operating Segments* would not be an appropriate basis for segment disclosure in a superannuation context, in particular because the role of a trustee in a superannuation entity differs from the role of a chief operating decision maker in the context of AASB 8; and



- (ii) noted that it would not generally be practicable to provide disaggregated information about each investment option provided by a superannuation entity or for sub-plans in many multi-plan superannuation entities, although a distinction between defined contribution and defined benefit information could be relevant in some circumstances; and
 - (iii) also decided that the illustrative examples should include example disclosures for a circumstance where disaggregated information would help to explain the risks to which different categories of members are exposed;
- (f) in relation to agenda paper 7.6, in respect of insurance arrangements:
- (i) guidance consistent with that in other standards that address identifying whether an entity is the principal/primary obligor or agent should be provided on determining when superannuation entities are likely to be acting only as agents, including noting that:
 - (A) it is indicative of a superannuation entity acting as an agent in respect of the insurance cover provided to members when: members (or their beneficiaries) will only receive insurance benefits if the insurer/reinsurer pays claims; and/or insurance benefits are only paid to members (or their beneficiaries) through the superannuation entity for administrative reasons; and/or the superannuation entity is collecting premiums that are passed on to an insurer and the amounts collected are effectively set directly by reference to the premiums forwarded to the insurer; and
 - (B) it is not necessarily indicative of a superannuation entity acting as an insurer simply because: (group) insurance cover is taken out in the name of the superannuation entity trustee; and/or ex gratia payments have occasionally been made by the trustees in respect of death and disability benefits; and
 - (ii) in respect of materiality, the Basis for Conclusions should note:
 - (A) the Board's deliberations on the notion that a superannuation entity that can pass the cost of any premium increases on to members at short notice would be indicative of there not being material exposure to insurance risk; and
 - (B) having a reinsurance contract in place does not of itself mean that a superannuation entity is not exposed to material insurance risk; and
 - (iii) liabilities arising from insurance arrangements provided to members by a superannuation entity (defined benefit and defined contribution) should be recognised in a manner consistent with the way in which defined benefit liabilities are recognised. The Board noted that this would be further considered in a future meeting when finalising the defined benefit liability recognition and measurement requirements, including addressing the fact that, while a discount rate or rates will have been determined by the entity in respect of defined benefit liabilities, the same will not have already have been done in respect of defined contribution liabilities (because they would have been recognised using account balances); and



- (iv) reinsurance assets should be recognised and measured consistent with the insurance liability recognition and measurement, which includes an asset impairment assessment. The Board noted that having consistency between insurance liability recognition and measurement combined with reinsurance asset recognition and measurement that includes an impairment assessment is the same broad approach as applied in AASB 1038 *Life Insurance Contracts* (for insurance and reinsurance); and
- (g) in relation to agenda paper 7.7, a transition period of at least two years should be provided from the date of issuing the replacement standard for AAS 25, with early adoption permitted because entities should not be prevented from providing the improved reporting under AAS 25 as early as they can. Retrospective application and the presentation of comparative information in accordance with AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would be required because in many cases the amounts arising from the existing reporting under AAS 25 would not provide relevant comparative information, particularly since the financial statements themselves under the replacement standard would be different from the financial statements provided under AAS 25.

The Board noted plans to consider further sweep issues at its next meeting and that it expects to finalise a replacement standard for AAS 25 in the third quarter of 2013.

Action:

Staff

Revenue from Contracts with Customers

Agenda Item 9

The Board had before it a memorandum from Glenn Brady and Nikole Gyles dated 27 March 2013 re Revenue from Contracts with Customers – update (agenda paper 10.1).

The Board received an update on the progress made by the IASB and the FASB on their joint revenue recognition project. The Board noted that the IASB and the FASB have completed redeliberations on their proposals in IASB ED/2011/6 *Revenue from Contracts with Customers*. In particular, the Board noted the IASB decided that the forthcoming revenue standard will apply to annual reporting periods beginning on or after 1 January 2017 and the IASB decided, at its March 2013 meeting, to permit early application of the standard. Drafting of the revenue standard is under way, with the most recent IASB work plan identifying that it is targeting completion of the standard by the end of June 2013.

The AASB will continue to monitor the project as the IASB and the FASB finalise the drafting of the standard.



IASB Proposals for Limited Amendments to IFRSs

Agenda Item 10

The Board had before it:

- (a) a memorandum re proposed amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 from Kala Kandiah and Christina Ng dated 27 March 2013 (agenda paper 10.1.1);
- (b) a memorandum re proposed amendments to IFRS 11 from Kala Kandiah and Christina Ng dated 27 March 2013 (agenda paper 10.1.2);
- (c) AASB ED 232, incorporating IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (agenda paper 10.2);
- (d) AASB ED 234, incorporating IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (agenda paper 10.3);
- (e) comment letter on ED 232 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* from CPA Australia and the Institute of Chartered Accountants [sub 1] (agenda paper 10.4); and
- (f) comment letter on ED 234 *Acquisition of an Interest in a Joint Operation* from CPA Australia and the Institute of Chartered Accountants [sub 1] (agenda paper 10.5).

IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (proposed amendments to IFRS 10 and IAS 28)

The Board considered comments received from constituents (agenda paper 10.4) and the issues that could form the basis of its submission to the IASB. The Board decided that its submission should support the IASB's proposals although they should allow for early adoption. In addition, the Board noted the proposals relate to the accounting for the sale or contribution of a business and therefore clarity regarding the definition of a 'business' is critical. The Board decided that its submission should recommend that the IASB considers providing additional guidance on that definition.

The Board directed staff to finalise the AASB submission on IASB ED/2012/6 out of session through the Chairman.

IASB ED/2012/7 *Acquisition of an Interest in a Joint Operation* (proposed amendments to IFRS 11)

The Board considered comments received from constituents (agenda paper 10.5) and the issues that could form the basis of its submission to the IASB after noting that some are of the view that the consideration paid for an interest in a joint operation should be allocated to the assets acquired rather than apply IFRS 3 principles. The Board decided that its submission should support the IASB's proposals and include comments recommending that the IASB considers providing guidance on related issues, for example, the accounting for a step-up of an interest in a joint operation given the frequency of such transactions. Furthermore, as noted above for IASB ED/2012/6, the Board highlighted that the proposals in IASB



ED/2012/7 are based on transactions that involve a business (being the acquisitions of interests in joint operations that are a business) and thus the clarity of the definition of a business is important.

The Board directed staff to finalise the AASB submission on IASB ED/2012/7 out of session through the Chairman.

Action: Staff, Chairman

IPSASB Report

Agenda Item 11

The Board had before it:

- (a) a memorandum from Clark Anstis dated 26 March 2013 (agenda paper 11.1);
- (b) the New Zealand report on the IPSASB meeting, March 2013 (agenda paper 11.2); and
- (c) *IPSASB Meeting Highlights*, March 2013 (agenda paper 11.3).

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

- (a) the IPSASB approved an ED *Presentation in General Purpose Financial Reports* in relation to Phase 4 of its Conceptual Framework project;
- (b) the IPSASB considered the nature of the pronouncements it might issue and decided that in the short term it should issue only two types of pronouncements: (1) mandatory standards (IPSASs) relating to general purpose financial statements, and (2) Recommended Practice Guidelines (RPGs) regarding other areas of financial reporting;
- (c) progress on various IPSASB projects – long-term sustainability of an entity's finances (RPG), financial statement discussion and analysis (RPG), first-time adoption of IPSASs, an update of its IPSASs on consolidation and joint arrangements, public sector combinations, and government business enterprises; and
- (d) the Monitoring Group had decided not to extend the oversight activities of the Public Interest Oversight Board (PIOB) to cover the IPSASB. The World Bank and the IMF are addressing possible oversight arrangements for the IPSASB.

The Board decided it would need to consider its approach to the issuance of IPSASB RPGs at a future meeting. The IPSASB next meets in June 2013.

Action: Staff



IASB Conceptual Framework project update

Agenda Item 12

The Board had before it:

- (a) a memorandum from Jim Paul dated 27 March 2013 (Agenda Paper 12.1); and
- (b) a copy of IFRS Staff Paper 2a for the Accounting Standards Advisory Forum (ASAF) meeting on 8 – 9 April 2013, entitled *Conceptual Framework: cover paper* (Agenda Paper 12.2).

The Board noted that the AASB Chairman participated in the discussion of the IASB's Conceptual Framework project at the ASAF meeting held on 8 – 9 April 2013. It decided not to write to the IASB at this stage about any tentative IASB decisions in its Conceptual Framework project; instead, the Board will wait until it develops a submission on the forthcoming IASB Discussion Paper on the IASB's Conceptual Framework, which is expected to be issued by the IASB early in the third quarter of 2013.

Board discussion of issues and tentative IASB decisions in relation to the IASB's Conceptual Framework project was deferred to future Board meetings.

Action: Staff

IPSASB proposals for Public Sector Conceptual Framework

Agenda Item 13

The Board had before it:

- (a) a memorandum from Jim Paul dated 27 March 2013 (Agenda Paper 13.1);
- (b) a staff issues paper on IPSASB ED *Elements and Recognition in Financial Statements* (Agenda Paper 13.2);
- (c) IPSASB ED *Elements and Recognition in Financial Statements*: AASB staff comments on 'deferred inflows' and 'deferred outflows' (Agenda Paper 13.3);
- (d) Update of proposals in IPSASB Consultation Paper (CP) on *Elements and Recognition in Financial Statements* and related comments in AASB submission dated 1 July 2011 on that CP (Agenda Paper 13.4);
- (e) IPSASB ED *Elements and Recognition in Financial Statements* (Agenda Paper 13.5);
- (f) a staff issues paper on IPSASB ED *Measurement of Assets and Liabilities in Financial Statements* (Agenda Paper 13.6);
- (g) IPSASB ED *Measurement of Assets and Liabilities in Financial Statements* (Agenda Paper 13.7);
- (h) a letter from the AASB Chairman and CEO to the HoTARAC Chair dated 28 February 2013 inviting comments on the IPSASB EDs (Agenda Paper 13.8); and



- (i) AASB submission dated 1 July 2011 on IPSASB CP *Measurement of Assets and Liabilities in Financial Statements*, annotated for differences between the IPSASB CP and ED (Agenda Paper 13.9).

The Board directed staff to prepare draft submissions on the IPSASB EDs, reflecting the Board's tentative decisions noted below and taking into account any further comments from constituents, for consideration by its IPSASB Conceptual Framework Subcommittee, before circulating a final draft to all members out of session for approval (with any non-responses from members to be construed as consent).

Elements and Recognition

The Board considered Agenda Papers 13.1 to 13.5 and made the following tentative decisions regarding potential key points to include in its submission on the ED, subject to confirming those tentative decisions out of session in light of any further comments from constituents:

- (a) the submission should indicate the Board does not support the IPSASB's proposals to define 'deferred inflows' and 'deferred outflows' as elements of financial statements and consequently to identify 'net financial position' in addition to net assets, for the reasons set out in Agenda Paper 13.3. The Board also noted, but did not consider it necessary to comment on, the potential for some to consider that the time dimension over which transfers of resources not giving rise to liabilities are expected or intended by a transferor to be used is of itself an 'economic phenomenon'. The Board concluded that this 'time dimension' is not an 'economic phenomenon'. That is, accounting for this time dimension would simply be an accounting mechanism that shifts the reporting of economic events into different periods from those in which they occur;
- (b) the submission should express a view that the definitions of assets and liabilities should be broad, and should exclude factors that associate the element with an entity (such as control, in respect of assets) – such factors should form part of the recognition criteria instead;
- (c) the submission should express a view that explicit neutral recognition criteria should be included in the IPSASB Conceptual Framework. The same criteria should apply to both recognition and derecognition of each element. (However, at this stage, the Board tentatively decided it is premature for it to indicate how those recognition criteria should be worded);
- (d) the submission should express a view that the proposed definitions of the elements of financial statements should be amended to explicitly cater for remeasurements of assets and liabilities that do not represent inflows or outflows of resources, for example, revaluations of property, plant and equipment (either by amending the definitions of revenues and expenses to refer to enhancements or diminutions of resources, or by identifying capital maintenance adjustments as elements, without the Board expressing a preference for either solution);
- (e) regarding Issue 11 in Agenda Paper 13.4, which discusses whether the discussion of liabilities in the IPSASB ED needs considerable revision:
- (i) the Board noted that it is problematic that the IPSASB ED says:



- (A) “distinguishing between conditional and unconditional obligations is not useful for the purpose of defining a liability because it is possible for conditional obligations to give rise to liabilities” (paragraph BC22). The Board noted that the IASB has tentatively decided (in its projects on Conceptual Framework, review of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, revenue recognition and insurance contracts) that only unconditional obligations are liabilities, although some unconditional obligations (i.e. obligations to stand ready to transfer economic benefits if an uncertain future event occurs) would be accompanied by conditional obligations to transfer economic benefits; and
- (B) “because performance obligations are normally conditional obligations and because the issues in determining whether such obligations give rise to liabilities is (sic) dependent upon the terms of particular binding agreements and may vary between jurisdictions, it would not be appropriate to use the term ‘performance obligation’ in the Framework” (paragraph BC26). The Board noted that the notion of performance obligations is fundamental to the upcoming IFRS on revenue recognition, and that this aspect will be an issue for the IPSASB if and when it revises its Standards (e.g. IPSAS 9 *Revenue from Exchange Transactions*) in light of that IFRS; but
- (ii) the Board considered that it needs to explore further the possible features of a liability before it can make constructive recommendations on how the IPSASB’s proposed guidance on the features of a liability could be improved. For example, it noted the IPSASB had concluded that the distinction between conditional and unconditional obligations would not be particularly helpful in identifying whether and, if so, when liabilities arise to provide social benefits. Therefore, the Board decided not to say in its submission that the discussion of liabilities in the IPSASB ED needs considerable revision. However, the Board decided to draw to the IPSASB’s attention its concerns described in paragraph (e)(i) above, as a cautionary note;
- (f) regarding Issue 16 in Agenda Paper 13.4, related to its decision reflected in paragraph (e) above, the Board decided that its submission should not disagree with (and therefore should be silent regarding) the IPSASB’s proposal that its Conceptual Framework should not identify whether and, if so, when liabilities arise to provide social benefits. The Board considers that this issue should be addressed at a standards level;
- (g) regarding Issue 21 in Agenda Paper 13.4, the Board decided that its submission should agree with the IPSASB’s proposals to not define net assets as an element of financial statements and to describe net assets as a residual amount rather than a residual interest. The Board came to a view that, in some circumstances, it would be inappropriate to describe ‘net assets’ as an ownership or residual interest because there are no specifically identified parties to whom the interest would be attributable. Accordingly, the Board’s view is that the more inclusive notion of a residual amount should be applied generally in relation to an entity’s net assets, and, as a residual, ‘net assets’ would



not represent an element of financial statements. The Board decided to include these reasons for its views on this issue in its submission; and

- (h) the submission should express the Board's view that the definitions of 'ownership contributions' and 'ownership distributions' in paragraphs 6.3 and 6.4, respectively, of the ED should be clarified to indicate they refer to transactions with owners acting in their capacity as owners (new words underlined). This is because owners can transfer resources to an entity, or receive resources from an entity, in other capacities, for example as lenders or customers: it should be clarified that, in those cases, the transactions would not qualify as 'ownership contributions' or 'ownership distributions'.

The Board also tentatively decided to include in its submission general recommendations that:

- (a) the IPSASB issues an omnibus ED incorporating its proposed Conceptual Framework after it has redeliberated all of its Conceptual Framework EDs, rather than finalising its Conceptual Framework without further consultation. The Board noted that an omnibus ED would enable the IPSASB's constituents to comment on the IPSASB's latest thinking on all of its proposals in its Conceptual Framework project, and to have regard to recent developments in financial reporting (including developments in the IASB's Conceptual Framework project);
- (b) the IPSASB should closely liaise with the IASB regarding those Boards' respective Conceptual Framework projects, in the context of the Memorandum of Understanding between the International Federation of Accountants and the IASB dated 22 November 2011. Nevertheless, the Board decided that, whilst it supports 'transaction neutrality' and the ultimate development of a single converged Conceptual Framework for all entities (regardless of their sector), its arguments in its submission should focus on the technical reasons for its views, and not primarily on whether the IPSASB's proposals are consistent with the tentative thinking of the IASB in its Conceptual Framework project; and
- (c) the IPSASB should regard its Conceptual Framework as a living document, and should commit to reviewing and updating its Conceptual Framework from time to time in light of subsequent developments in financial reporting, the timing of which should reflect its resources and priorities.

Measurement

The Board considered Agenda Papers 13.6 to 13.9 and made the following tentative decisions regarding potential key points to include in its submission on the ED, subject to confirming those tentative decisions out of session in light of any further comments from constituents:

- (a) historical cost is less relevant than current value as a measurement basis for assets and liabilities. However, whether a current value is, in concept, the most useful measurement basis for a particular asset or liability would also depend on whether it can faithfully represent the economic phenomena it purports to represent. While noting these points, the Board tentatively decided its submission should explicitly decline to express a view on which measurement model would be conceptually ideal, because it is premature for the Board to form a view on this issue; and



- (b) in Section 3 of the proposed Measurement chapter, 'market value' should be replaced with 'fair value' because doing so would remedy the problem, as identified in paragraph 9 of agenda paper 13.6, that the IPSASB ED treats fair value as a less important measurement basis than market value; and would both help simplify the discussion of current value measurement bases and help avoid potential confusion (given that both terms, as used in the IPSASB's proposed Measurement chapter, have essentially the same meaning). The Board noted that, although public sector statistical reporting refers to 'market value' rather than 'fair value', giving greater emphasis to 'fair value' than 'market value' is appropriate in view of the use of 'fair value' in both IPSASs and IFRSs and because both terms, as used in the IPSASB's proposed Measurement chapter, have essentially the same meaning.

There ceased to be a quorum of Board members at this point in the discussion of this agenda item. In discussions amongst Board members after that time, some Board members commented that the Board's submission on the IPSASB ED should:

- (a) state that a measurement objective should be identified to guide the selection of measurement bases;
- (b) state that, if the IPSASB decides on a mixed measurement model, it should identify criteria for assisting in the appropriate choice of measurement basis and methods (e.g. discount rates) in different circumstances;
- (c) state that decisions about measurement bases should be made in conjunction with making decisions about how information, such as changes in values of assets and liabilities, should be presented in financial reports; and
- (d) reiterate the Board's comment, made in its submission dated 8 June 2012 on the IPSASB Conceptual Framework CP *Presentation in General Purpose Financial Reports*, that the objectives of financial reporting need to be supported by identifying key aspects (i.e. stocks and flows) of an entity. In the context of Measurement concepts, identifying these aspects would help provide a focus for making choices between different measurement attributes or bases.

Action:	Staff IPSASB Conceptual Framework Subcommittee Board members
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Possible policy implications of the results of research into accounting by lodging entities

Agenda Item 14

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 22 March 2013 (agenda paper 14.1); and



- (b) staff paper, Policy Implications of SPFSs Research Report and a Road Map to Implementation (agenda paper 14.2).

Following on from discussions at its February 2013 meeting, the Board continued discussing the results emerging from the research into special purpose financial reporting, the possible policy implications arising from the research and a tentative road map to addressing those implications.

The Board reflected on its discussions in February and tentatively decided that:

- (a) in light of the high incidence of SPFSs amongst lodged financial statements, there is doubt as to whether the reporting entity concept is being applied as intended by SAC 1 *Definition of the Reporting Entity* in identifying entities that should prepare GPFs;
- (b) a proportion of SPFSs lodged with the Australian Securities and Investments Commission appear not to have applied the recognition and measurement requirements of all applicable Australian Accounting Standards;
- (c) as the exemption from lodgement of financial statements of grandfathered large proprietary companies does not stem from accounting standards, if any changes were to be made to the lodging requirements applicable to such entities, they would need to arise from legislative change;
- (d) the reporting entity concept should continue to be used as the basis for identifying entities that, in concept, should be subject to general purpose financial reporting requirements. The concept would be used by the Board as the basis for its own deliberations on matters relating to general purpose financial reporting and for its discussions with others in the financial reporting environment. Accordingly, at this meeting, the Board tentatively decided that SAC 1 would not be part of the AASB Framework if there were to be a change of application focus from reporting entity to GPFs but that material based on SAC 1 could be made available in another form for general use in the identification of entities that should be required to prepare and lodge GPFs (whether under Tier 1 or Tier 2);
- (e) in regard to the role of the Board as a standard setter:
- (i) its mandate should be to set accounting standards for preparing general purpose financial statements under Tier 1 and Tier 2; and
 - (ii) reporting requirements for special purpose financial statements should be outside its mandate and should be a matter for consideration by preparers and identified users and regulators who are not dependent on general purpose financial statements;
- (f) consistent with the implementation road map considered at this meeting, staff should liaise with regulators, including the Treasury, the Australian Securities and Investments Commission (ASIC), the Australian Charities and Not-for-profits Commission (ACNC) and relevant State government bodies, with a view to coordinating the Board's and those regulators' efforts in dealing with the issues emerging from the research. In regard to such liaison, staff reported the results of their recent meeting with staff of the ASIC; and



- (g) an Exposure Draft should be developed, based on a redeliberation of the ED 192 *Revised Differential Reporting Framework* proposals in relation to the change of the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements' and the clarification of general purpose financial statements in the Australian context, and include any amendments to those proposals that might arise from the research report and the liaison with other regulators in regard to any proposed transition.

Staff will report the results of its ongoing liaison with other regulators at future meetings.

The Board noted that, as its work progresses, this will help inform the Board on what further work should be undertaken. At this stage, the Board intends publishing a paper setting out its assessment of the policy implications of the research conducted on entities lodging with the ASIC and the three State jurisdictions that supplied research data, after it has consulted with the relevant regulators. That paper is expected to be published concurrently with the final research report.

Action:

Staff

Close of Meeting

There ceased to be a quorum of Board members at 5.00 pm.

The Chairman closed the meeting of the remaining Board members at approximately 5.30 pm. on Wednesday 10 April 2013.

Approval

Signed by the Deputy Chairman as a correct record
this twenty ninth day of May 2013