Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the 131st meeting of the AASB
Venue:	Ken Spencer Room, AASB offices Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 29 May 2013 from 9.00 a.m. to 5.30 p.m. Thursday 30 May 2013 from 8.30 a.m. to 1.45 p.m.

All agenda items except items 1 and 6 were discussed in public, item number10 was not used.

Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chairman) John O'Grady (Deputy Chairman) Peter Carlson Victor Clarke (Day 1) Anna Crawford Michelle Embling Peter Gibson Jayne Godfrey Liane Papaelias Carmen Ridley Brett Rix
Apologies	Victor Clarke (Day 2) Roger Sexton Robert Williams
In Attendance:	
Staff	Clark Anstis (in part) Nikole Gyles (in part) Kala Kandiah (in part) Ahmad Hamidi Ravari (in part) Robert Keys Sue Lightfoot (in part) Christina Ng (in part) Jim Paul (in part) Julie Smith Shaun Steenkamp (in part) Angus Thomson
Consultant	Evelyn Ling (in part)

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

Special Purpose Financial Statements Research

The Chairman noted the progress made with regulators in discussing the results of the AASB's research. Further meetings are planned over the coming weeks.

Treasury

The Chairman noted that the AASB has been advised that the *Legislative Instruments Act 2003* will be changed to exempt accounting standards from the requirement for all instruments more than ten years old to lapse unless remade.

New Zealand

(a) the Boards have issued a package of standards that will apply to public sector public benefit entities (not-for-profit entities) from 1 July 2014; and

(b) Standards for Tiers 3 and 4 are planned for Q4 2013.

IASB and FASB

The Chairman noted that:

(a) Sue Lloyd (former AASB member) is to serve as a member of the IASB for an initial five-year term, renewable for a further three years; and

(b) Russell Golden has been appointed as FASB Chairman, successor to Leslie Seidman. Mr Golden confirmed that the FASB's immediate priorities will include completing international convergence projects.

IPSASB

The Chairman noted that the IPSASB has published its Exposure Draft dealing with Presentation in General Purpose Financial Reports.

IFASS/AOSSG

The Chairman noted that:

(a) International Forum Accounting Standard Setters particularly provides a forum where issues that are not on the IASB agenda can be discussed.

(b) he and an AASB staff member attended, in April, the IFASS meeting held in Brazil. Nominations are currently being sought for the chair of IFASS effective from September; and

(c) AOSSG will be conducting its first round of train-the-trainer sessions in Nepal in late June. One AASB staff member will attend and oversee the sessions.

Other

The Chairman also noted that:

(a) in early June he and AASB staff will be attending several meetings in Hong Kong including an:

   (i) IFRS Regional Policy Forum;

   (ii) interim AOSSG meeting; and

   (iii) IASB Roundtable dealing with impairment of financial instruments;

(b) AASB staff hosted Roundtables in both Melbourne and Sydney to discuss the IASB's Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses;*

(c) Warren McGregor's thought leadership paper dealing with liabilities will be published shortly as an AASB monograph;and

(d) AASB staff are in the process of implementing the new technical staffing structure. The transition is scheduled to formally commence on 1 July 2013. The Chairman also noted that in due course the Board should consider the level of involvement it should have in different types of research that might be undertaken by the AASB's Research Centre.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for both days of the meeting from Roger Sexton and Robert Williams and on Day 2 from Victor Clarke.

Minutes

The Board approved the minutes of the one hundred and thirtieth meeting held on 10 April 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 (10 April 2013), the Board has approved out of session the following Agenda Decision and Exposure Drafts:

(a) AASB Agenda Decision *GAAP/GFS Harmonisation for Entities Within the GGS*;

(b) Tier 2 Supplement to ED 235 *Recoverable Amount Disclosures for Non-Financial Assets*; and

(c) ED 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*.

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 240 *Regulatory Deferral Accounts*, which incorporates IASB ED/2013/5; and

(b) ED 242 *Leases*, which incorporates IASB ED/2013/6.

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 14 May 2013 re: AASB Work Program (agenda paper 3.1);

(b) summary of AASB Work Program (May 2013) (agenda paper 3.1.1);

(c) detailed AASB Work Program (May 2013) (agenda paper 3.1.2);

(d) Submissions Pipeline Report (14 May 2013) [Board only] (agenda paper 3.1.3);

(e) AASB Sub-committee membership listing as at 14 May 2013 [Board only] (agenda paper 3.2);

(f) 2014 Annual Information Statement (AIS) Public Consultation Paper, 13 March 2013 (agenda paper 3.3);

(g) letter from AASB Chairman to IPSASB Technical Director dated 11 April 2013 re IPSASB Consultation Paper *IPSASs and Government Finance Statistics Reporting Guidelines* (agenda paper 3.4);

(h) letter from AASB Chairman to Australian Charities and Not-for-profits Commission dated 26 April 2013 re 2014 Annual Information Statement (AIS) Public Consultation Paper (agenda paper 3.5);

(i) submission on ED 236 (IASB ED/2013/2) *Novation of Derivatives and Continuation of Hedge Accounting* (proposed amendments to AASB 139 and AASB 9) [sub 3] (agenda paper 3.6);

(j) memorandum from Sue Lightfoot to AASB members dated 15 May re Accounting Standards Advisory Forum (ASAF) (agenda paper 3.7);

(k) Communications Report 29 April – 28 May 2013 [BOARD ONLY] (Tabled agenda paper 3.8);

(l) letter from AASB Chairman to Technical Director, IPSASB dated 15 May 2013 re IPSASB Exposure Draft *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (Tabled agenda paper 3.9);

(m) IFRS Press Release dated 28 May 2013 re IASB publishes Feedback Statement on Disclosure Forum, calls for behavioural change regarding financial information disclosure (Tabled agenda paper 3.10): and

(n) Roundtables on Leases are organised for 7 August in Melbourne and the 8 August in Sydney. Invitations to Board members will be sent shortly.

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:

(a) a memorandum from Nikole Gyles dated 14 May 2013 re IFRS Interpretations Committee update (agenda paper 4.1);

(b) an issues paper on Disclosure of information elsewhere in the financial report (agenda paper 4.2);

(c) an AASB Staff Summary of IFRS Interpretations Committee Decisions – May 2013 (tabled agenda paper 4.3); and

(d) *IFRIC Update* May 2013 (tabled agenda paper 4.4).

The Board received an update on recent IFRS Interpretations Committee activities and decided there were no issues that need to be raised with the Committee at this stage.

The Board also received an update on the results of staff research into the implications of accounting standards permitting financial statements to include a cross-reference to disclosure of information outside the financial statements. This issue arises in the context of paragraph 16A of IAS 34 *Interim Financial Statements* and paragraph B6 of IFRS 7 *Financial Instruments: Disclosure* (which the AASB has omitted from AASB 7).

The Board considered whether paragraph B6 of IFRS 7 should be included in AASB 7 and whether a clarifying footnote should be added to paragraph 16A of AASB 134. The Board decided that a footnote to paragraph 16A of AASB 134 is not necessary. The Board asked staff to continue investigating the possible implications of inserting IFRS 7 paragraph B6 for consideration by the Board at a future meeting.

Comments were made that price times the quantity of units is an appropriate measure of fair value. Jayne Godfrey agreed to provide staff with references to academic work on this topic.

Action:	Staff Jayne Godfrey

Emerging Issues

Agenda Item 5.1

The Board had before it correspondence between the IFRS Foundation/IASB and an Australian constituent in respect of the implications of IFRS Foundation educational material that had been issued on IFRS *Joint Arrangements* (Board only agenda paper 5.1).

The Board noted that:

(a) the IFRS Foundation/IASB should be encouraged to issue educational material for the benefit of constituents, but that it can be difficult to provide such material without also interpreting IFRS; and

(b) the IFRS Foundation educational material on IFRS 11 *Joint Arrangements* that was the subject of the correspondence between the IFRS Foundation/IASB and an Australian constituent has been withdrawn.

The Board requested that staff send a copy of the response from the IASB to the Australian constituent to Board members out of session for their information.

Action: Staff

Agenda Item 5.2

The Board had before it a memorandum dated 24 May 2013 from Evelyn Ling and Robert Keys re the proposed withdrawal of AASB 1031 *Materiality* (Tabled agenda paper 5.2).

The Board noted staff's progress in drafting a pre-ballot draft of an ED proposing the withdrawal of AASB 1031 and consequential amendments. The Board considered whether the scope of the project should be expanded to address a broader consideration of terminology associated with materiality used in a range of standards and noted that the use of synonyms (such as 'significant', 'major' and 'key') has contributed to the confusion around the application of materiality. The Board decided that the scope of the project should remain narrowly focused. A pre-ballot draft reflecting the Board's decision will be circulated out of session in the near future.

Other Items

John O'Grady noted the proliferation of tax issues that are raising questions about the scope of IAS 12 *Income Taxes*.

Brett Rix commented on the apparent diversity in practice of interpretations of IFRIC 20 *Stripping Costs in the Production Phase of a Mine*.

Action: Staff

Review

Agenda Item 6

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

The Chairman noted that the AASB needs to consider conducting more outreach to CFOs and the extent to which it should provide post-issuance support for the Leases and Insurance standards

Investment entities

Agenda Item 7

The Board had before it:

(a) a memorandum from Kala Kandiah and Angus Thomson dated 14 May 2013 re Investment Entities (agenda paper 7.1);

(b) a collation of comments on ED 233 Australian *Additional Disclosures – Investment Entities* and staff recommendations (agenda paper 7.2); and

(c) full text of submissions on ED 233 [subs 1 – 29] (agenda paper 7.3).

The Board considered comments received in response to ED 233, which proposes to introduce the IFRS exception to consolidation for investment entities ('IASB amendments') and require Australian additional disclosures in the form of consolidated financial statements for Australian entities that meet the IASB's definition of an 'investment entity'. The Board also considered feedback from targeted outreach conducted by staff and staff analysis and recommendations.

In deciding how to proceed, the Board considered three main approaches for introducing the IASB amendments for investment entities in Australia:

A. issue the IASB amendments without Australian additional disclosures;

B. issue the IASB amendments with Australia additional disclosures proposed in ED 233; and

C. issue the IASB amendments with Australian additional disclosures that are reduced compared to ED 233 proposals, in particular disclosures about an unconsolidated subsidiary's total assets, total liabilities and total comprehensive income.

The majority eight of the members present at the meeting expressed a preference for, or could at least accept, Approach A, consistent with the Board's policy of IFRS adoption. Some of these members consider that fair value information of controlled investments can arguably be regarded as more relevant for users of financial statements of investment entities than consolidation information. Whilst these members do not individually agree with every element of the IASB amendments, they are willing to accept, in the absence of evidence to the contrary, that the IASB amendments without Australian additional disclosures are sufficient to meet the needs of users of financial statements of investment entities, consistent with the feedback received from the majority of the respondents to ED 233. Some of the eight members also accepted Approach A on the basis that the AASB would monitor the implementation of the IASB amendments for Australian investment entities with a view to potentially adding Australian disclosure requirements at a later stage, if it becomes evident that additional disclosures are warranted, noting that such disclosures might be different from those proposed in ED 233 and those mooted by staff as part of Approach C. If monitoring highlights the need for improvements, this could lead to the AASB deciding to write to the IASB, informing it of the findings and concerns arising from the Australian experience and/or adding compensating disclosures.

Four members present at the meeting expressed strong disagreement with Approach A and indicated that if a standard were to be based on Approach A, they would express dissenting views. This is on the basis that the IASB's amendments fundamentally go against the key accounting concept of control and may give rise to structuring opportunities to avoid consolidation. These members believe that transactions should be accounted for consistently between different entities, and that accounting should not be based on the type of entity in question. Three of these Board members could accept issuing the IASB amendments with Australian additional disclosures as proposed in ED 233 or some other form of disclosures that would help mitigate their concerns, although they expressed concern with Approach C in the absence of further input from users.

The Board noted the wide range of arguments put forward by respondents to ED 233 for favouring Approach A. However, the Board did not accept all of those arguments, for example the arguments that requiring Australian additional disclosures would reduce comparability between Australian investment entities and their international counterparts or could lead to the perception that Australian investment entities are not IFRS compliant.

Based on the discussion, the Board made a preliminary decision that staff should prepare a pre-ballot draft of an Amending Standard to introduce into Australian Accounting Standards the IASB amendments for entities that meet the definition of an 'investment entity' without Australian additional disclosures (i.e. Approach A).

The Board noted that a final decision on making an Amending Standard (which would require the positive vote of at least 9 members) is yet to be made and would depend on the views of all members, including those not present at this meeting. The pre-ballot draft process will provide an out-of-session mechanism to ascertain the views of absent Board members and to evince any sweep issues that might be identified by other members.

Staff noted that when the IASB amendments for investment entities were incorporated into ED 220 *Investment Entities* and issued in September 2011, the Board did not propose any relief from the disclosure requirements for Tier 2 entities. Staff also noted that the issue in Australia of the IASB amendments for investment entities would entail the disclosure requirements in the IASB amendments being incorporated into AASB 12 *Disclosure of Interest in Other Entities.*

The pre-ballot draft will be accompanied by:

(a) a Basis for Conclusions that captures the Board's decisions and deliberations (including reservations) on issuing the IASB amendments for Australian investment entities without Australian additional disclosures and conveys the Board's commitment to monitor its implementation in Australia; and

(b) Dissenting Views to reflect the views of those members who do not support the Board's decision.

Action: Staff
Chairman

Superannuation Entities

Agenda Item 8

The Board had before it:

(a) a memorandum from Angus Thomson and Shaun Steenkamp dated 14 May 2013 (agenda paper 8.1);

(b) staff paper: Defined Benefit Liability Measurement by superannuation entities and certain related disclosures (agenda paper 8.2); and

(c) staff paper: 'Receivables' relating to Defined Benefit Liabilities of superannuation entities (agenda paper 8.3).

The Board considered the staff papers and noted they cover what are expected to be the final 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*.

In relation to defined benefit liability measurement (agenda paper 8.2), the Board tentatively decided:

(a) to confirm that projected accrued benefit payments relating to members' service to date are the relevant focus for defined benefit liabilities;

(b) after noting that there is not a consistent approach across the various Standards to measuring different types of liabilities and having regard to the nature of defined benefit liabilities and the regulatory environment in which superannuation entities operate, to confirm that the relevant measurement principle for a defined benefit liability is the amount the entity would need at the reporting date to meet the expected payments to members, when they are expected to be paid;

(c) in the context of the measurement principle noted in (b) above, to provide an explanation for determining the relevant discount rate(s) along the lines that it (they) would be the expected notional returns, including fair value changes, on a portfolio of assets available to the entity that is judged by the trustees to be the optimal way to generate the cash inflows needed to meet benefit payments, based on a realistic assessment of the relative risks and returns on those assets;

(d) to provide associated Application Guidance noting that a portfolio of assets to be used by an entity as a basis for determining the relevant discount rate(s) would need to:

   (i) be expected to generate cash inflows that would meet, but not exceed, member benefits. Those cash inflows might be expected to vary over the relevant periods and to differ for different parts of a portfolio. Accordingly, in determining the relevant portfolio, regard would need to be had to the expected duration(s) of defined benefit payments and the need to have sufficient liquid assets at relevant times to meet benefit cash outflows when they are projected to fall due;

   (ii) be realistically obtainable for the entity in light of the existing and expected economic climate; and

(iii) take into account any restrictions in the entity's investment mandate – accordingly, for example, to the extent a plan is restricted to investing only in a particular class of assets, it would need to apply expected rates on such assets;

(e) the Application Guidance associated with identifying a portfolio of assets to be used by an entity as a basis for determining the relevant discount rate(s), noted in (c) above, should also note that such a portfolio would be expected to often be the same mix of assets as the entity's actual portfolio of assets due to the need for most entities/plans to have a suitable investment strategy in respect of meeting their obligations to defined benefit members. However, the relevant portfolio would not necessarily be the same mix of assets as the actual assets held by the entity/plan, for example, where an entity/plan is transitioning to a revised investment strategy or where an entity/plan is unfunded;

(f) the Basis for Conclusions should note the significance of the Board's consideration of the regulatory overlay in the superannuation environment to the Board's conclusions on defined benefit liability measurement, including the trustees' duties to:

(i) perform and exercise their powers in the best interests of members and other beneficiaries;

(ii) formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the entity including having regard to investment risks and the need for adequate diversification and expected cash flow requirements;

(g) the Basis for Conclusions should also note that the Board:

(i) consistent with (b) above, concluded its measurement principle for defined benefit liabilities is more relevant to such a liability than the various other measurement bases available in IFRS, but that the Board would reconsider the measurement principle in the event that a consensus emerged on a (different) suitable measurement principle;

(ii) specifically considered the use of a benchmark discount rate in a present value measurement of defined benefit liabilities but concluded that, while this could result in uniformity, it would also result in treating all defined benefit liabilities as if they had the same or similar characteristics, which is not the case; and

(iii) concluded it would not be appropriate to identify any particular methodologies that might be employed in measuring defined benefit liabilities, for example, when an actuary is not engaged to conduct a full actuarial valuation;

(h) in addition to the disclosures on which the Board has previously tentatively decided, where the entity's actual mix of assets in its investment portfolio differs from the notional portfolio used to determine the discount rate(s), to require disclosure of an explanation of why that is the case; and

(i) in relation to the sensitivity disclosures relating to significant assumptions used in measuring the defined benefit liability on which the Board has previously tentatively decided, to emphasise that:

(i) the subject of the disclosures is reasonably possible changes in those assumptions; and

(ii) when there is more than one significant assumption for which a change is reasonably possible, consistent with the sensitivity disclosure requirements of AASB 7 *Financial Instruments: Disclosures*, the analysis could be performed on a univariate basis or on a multivariate basis.

In relation to ‘receivables’ relating to defined benefit liabilities (agenda paper 8.3), the Board tentatively decided:

(a) to confirm its earlier decision to require recognition of an asset where there is a contractual or legislative arrangement to fully fund defined benefit liabilities that meets the definition and recognition criteria for an asset;

(b) the asset would be measured on a basis consistent with the measurement principle for the underlying defined benefit liability less the fair value of any assets held by the entity to meet that liability, which is effectively the ‘intrinsic’ amount of the asset; and

(c) the Application Guidance and/or the Basis for Conclusions should explain that entities need to consider the nature of their activities and the boundaries of the entity to determine if they are superannuation entities or only custodial arrangements, and directed the staff to consider any implications of this tentative decision for the definition of ‘superannuation entity’.

The Board agreed that staff should commence preparing a pre-ballot draft standard and, once the Board has completed the pre-ballot process, the draft should be made available on the AASB’s website for about 60 days to provide constituents with an opportunity to identify any fatal flaws. The Board acknowledged that this is likely to extend the time by which it expects to finalise a replacement standard for AAS 25 to Q4-2013.

Action: Staff

Financial Instruments

Agenda Item 9

The Board had before it:

(a) a memorandum from Sue Lightfoot and Christina Ng dated 14 May 2013 re: Financial Instruments Project Update (agenda paper 9.1);

(b) Issues Paper: IASB proposals on Financial Instruments: Expected Credit Losses (agenda paper 9.2);

(c) notes on AASB Roundtables on Financial Instruments: Expected Credit Losses (agenda paper 9.3, tabled);

(d) submission from Hayes Knight on ED 237 *Financial Instruments: Expected Credit Losses* (agenda paper 9.4); and

(e) joint Submission from CPA Australia and the Institute of Chartered Accountants Australia on ED 237 *Financial Instruments: Expected Credit Losses* (agenda paper 9.4, tabled).

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 hedge accounting, classification and measurement and impairment.

Hedge Accounting

The Board noted the IASB had completed its redeliberations on general hedge accounting and that the IASB had decided to provide entities with the following hedge accounting policy choices:

(a) adopt the hedge accounting requirements of IFRS 9;

(b) continue with the hedge accounting requirements of IAS 39; or

(c) adopt the IFRS 9 hedge accounting requirements, except that for fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities to apply the IAS 39 requirements.

The Board noted that the IASB expects to issue a version of IFRS 9 that includes chapters on general hedge accounting in Q3 2013.

An IASB Discussion Paper on macro hedge accounting is expected in Q3 2013.

Classification and Measurement

The Board noted that feedback on ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* had been presented to the IASB's May 2013 meeting and respondents to the ED had expressed mixed views on the proposed amendments to the contractual cash flows characteristics test and the introduction of a mandatory fair value through other comprehensive income (FVOCI) category for debt instruments.

The Board also noted that the IASB's survey of users on the proposed changes for financial assets is open until 31 May 2013 and that the IASB will continue its redeliberations on the proposals at a future meeting.

Impairment

The Board considered key issues to raise in its submission on IASB ED/2013/3 *Financial Instruments: Expected Credit Losses,* that is open for comment until 5 July 2013 (the IASB ED was incorporated into AASB ED 237, which was open for comment until 10 May 2013). The Board considered comments received on ED 237 and feedback from Roundtables held in Sydney and Melbourne and tentatively decided to express concerns with the IASB's dual measurement model in its submission to the IASB, including:

(a) the proposed expected credit loss model is complex, difficult to relate to the underlying economics and could be burdensome for some financial institutions and non-financial institutions to implement;

(b) the recognition of losses at initial recognition appears to result in double counting of expected credit losses that are already factored into the pricing of instruments;

(c) stage 1 measurement of '12-month expected credit losses' employs an arbitrary time horizon for which there appears to be no conceptual basis. Some Board members identified an alternative approach that would require expected credit losses for stage 1 to be determined based on the loss-emergence period experienced by the entity for particular product types, portfolios and markets;

(d) the proposed rebuttable presumption that a significant increase in credit risk has occurred when payments are more than 30 days past due, if no other borrower-specific information is available, is likely to be rebutted in many cases and therefore would not appear to be useful. Some Board members would want to place more dependence on disclosure of the entity's policy for determining significant credit deterioration; and

(e) the proposed simplifications for trade receivables, lease receivables, and investment-grade assets may not alleviate the operational burden.

Some Board members wondered whether the IASB approach could be expressed in a way that is less likely to require tracking of credit quality by customer or instrument.

Those and other Board members suggested that the IASB model could be simplified and made more operational for smaller financial institutions and non-financial institutions. This might be achieved by (1) removing the requirement to recognise losses at initial recognition, and (2) subsequent to initial recognition, recognising a loss provision if losses that were not expected at initial recognition are then expected to occur.

Despite these suggestions some Board members expressed a view that an 'expected but not yet reported' model (which could build on the current 'incurred but not yet reported' model used under IAS 39) could be applied to reach a reliable estimate of impairment losses on a timely basis and would have merit conceptually.

The Board also discussed the proposals in the ED in relation to the following: scope; presentation of interest revenue (whether on a gross or net basis); disclosure; financial assets that are modified but not derecognised; loan commitments and financial guarantee contracts; financial assets that are credit-impaired on initial recognition; the effective date and transition.

Some Board members had concerns about the following:

(a) whether the proposed requirement to present interest revenue on a net basis for some financial instruments would provide more useful information than gross presentation;

(b) whether the proposed disclosure requirements would be burdensome, in particular for smaller financial institutions and non-financial institutions;

(c) the treatment of financial assets that are modified but not derecognised, and the potentially inconsistent treatment with financial assets that are derecognised as a result of modification;

(d) the apparent inconsistency in the initial recognition of purchased credit-impaired financial instruments (for which no credit loss would be initially recognised initially) and initial recognition of an originated financial instrument (for which credit loss must be recognised, unless measured at fair value through profit or loss); and

(e) the difficulty of restating comparatives without the use of hindsight and suggested that if comparatives are restated this fact should be disclosed.

Some Board members noted that the mandatory application date might be aligned with that for the forthcoming standard on Insurance Contracts. Some Board members also noted that the date could also be aligned with that expected for the forthcoming standard *Revenue from Contracts with Customers,* which is expected to be mandatory for annual reporting periods beginning on or after 1 January 2017. Some would prefer to delay adoption by a further year to allow comparatives to be determined without the use of hindsight.

The Board agreed that the submission to the IASB will be coordinated through the AASB's financial instruments impairment sub-committee comprising Peter Carlson, John O'Grady, Brett Rix, Roger Sexton and Kevin Stevenson.

Action:	Staff Impairment sub-committee

IASB Conceptual Framework Developments

Agenda Item 11

The Board had before it:

(a) a memorandum from Jim Paul dated 14 May 2013 (agenda paper 11.1);

(b) an AASB Staff Issues Paper on IASB Conceptual Framework Developments (Draft Discussion Paper) (agenda paper 11.2);

(c) IFRS Staff Paper for the April 2013 meeting of the Accounting Standards Advisory Forum (ASAF), entitled *Conceptual Framework Cover Paper* (agenda paper 11.3);

(d) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *Cover Note* (agenda paper 11.4);

(e) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *Presentation in the statement of comprehensive income – profit or loss and OCI* (agenda paper 11.5);

(f) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *Measurement* (agenda paper 11.6);

(g) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *Measurements in existing and proposed IFRSs* (agenda paper 11.7);

(h) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *Capital maintenance* (agenda paper 11.8);

(i) IFRS Staff Paper for the IASB's April 2013 meeting, entitled *The use of 'business model' in the Conceptual Framework* (agenda paper 11.9);

(j) IASB Summary of the ASAF's April 2013 meeting (agenda paper 11.10);

(k) slides of AASB staff PowerPoint presentation (Tabled agenda paper 11.11); and

(l) AASB staff handout: example illustrating the meaning of concepts of 'wealth' and 'economic income' (Tabled agenda paper 11.12).

The Board was reminded that the IASB is developing a Discussion Paper (DP) of a revised Conceptual Framework (which would not seek 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 DP is targeted for issue in July 2013, with a comment period of 180 days. At this meeting, the AASB conducted a non-deliberative 'educational' session on IASB staff papers regarding developments to date on the draft DP, covering presentation in the statement of comprehensive income, and measurement. No decisions were made. Comments of AASB members that might be considered for inclusion in future submission(s) to the IASB on its proposals are set out in Appendix A to these minutes.

The Board will hold further sessions on the DP at future meetings.

Action: Staff

IASB Request for Information: Rate Regulation

Agenda Item 12

The Board had before it:

(a) a memorandum from Nikole Gyles dated 14 May 2013 re: IASB Request for Information: *Rate Regulation* (agenda paper 12.1);

(b) an issues paper on IASB Request for Information *Rate Regulation* (agenda paper 12.2); and

(c) AASB ITC 28 *Invitation to Comment on IASB Request for Information on Rate Regulation* (which incorporates the IASB's Request for Information) (agenda paper 12.3).

The Board discussed preliminary responses to questions in the IASB's Request for Information (RFI) on Rate Regulation, which aims to gather information about the range of rate-regulated schemes that exist in practice, to help the IASB identify the types of schemes that would be included within the scope of its project. The AASB Invitation to Comment ITC 28 (that incorporated the IASB RFI) was issued for comment by 7 May 2013. Although no comment letters were received, AASB staff undertook targeted outreach to various Australian constituents. The Board considered the information gathered from the outreach and decided to respond to each of the questions in the RFI and to provide a wide range of examples of rate regulation found in Australia, such as those in relation to power and water utilities, postal services, port authorities and cemeteries.

The response to the RFI will include the following comments, based on the feedback received from constituents:

(a) the IASB RFI is not clear as to whether the IASB intends to scope out entities within the scope of IFRIC 12 *Service Concession Arrangements.* There are a number of entities, such as those entities responsible for toll roads, that would appear to meet the IASB's working definition of 'rate regulation' that are currently within the scope of IFRIC 12;

(b) the AASB has identified a number of industries in which prices are regulated, even in competitive environments. However, based on the feedback received by the AASB, the price regulation in very few of these industries results in rights or obligations;

(c) rate regulation often occurs in Australia when there is deemed to be insufficient competition in an industry. In such circumstances it is considered that there is a risk there could be no market restraint of price in the absence of rate regulation. That is, the objective of the rate regulation is to help ensure the customer is not 'overcharged' for the service provided by the entity. A further objective of some rate regulation is a matter of social policy such that services are provided to everyone at affordable rates; for example, postal services;

(d) most rate regulation in Australia of an 'access regime' type is price capped. That is, entities are able to charge a maximum average price for the period; and

(e) if a regulated entity incurs costs greater than forecast (as reported to the regulator) they are generally not able to pass the additional costs through to customers. In addition, businesses are only able to recover 'efficient' cost, not all costs.

The comment letter will be finalised out-of-session.

Action: Staff
Chairman

Repeat Application of AASB1

Agenda item 13

The Board had before it:

(a) a memorandum from Clark Anstis and Ahmad Hamidi dated 13 May 2013 (agenda paper 13.1); and

(b) Extracts from Relevant Standards – AASB 2012-5 and AASB 1053 (agenda paper 13.2).

The Board noted that amendments made to AASB 1 *First-time Adoption of Australian Accounting Standards* in June 2012 introduced an option concerning the repeat application of AASB 1 by an entity – either (a) apply AASB 1 (including all of its disclosure requirements) again; or (b) apply Australian Accounting Standards retrospectively under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (as if the entity had never stopped applying Australian Accounting Standards or IFRSs), with two new disclosure requirements under AASB 1 (in paragraphs 23A and 23B).

At this meeting, the Board considered the application of this option to Tier 2 entities and its relationship with the existing Tier 2 transition requirements in AASB 1053 *Application of Tiers of Australian Accounting Standards*. The Board decided that:

(a) AASB 1053 should be amended so that it is clearly consistent with the availability of the AASB 108 option under AASB 1;

(b) Tier 2 entities should be able to avail themselves of the AASB 108 option under AASB 1 in similar circumstances as Tier 1 entities. However, a Tier 2 entity that in its most recent previous annual financial statements did not include an explicit and unreserved statement of compliance with Australian Accounting Standards – Reduced Disclosure Requirements because it did not apply some of the disclosure requirements under Tier 2 but continued to apply all recognition, measurement and presentation requirements under Australian Accounting Standards – Reduced Disclosure Requirements, including those of AASB 1, need not apply AASB 1 or the AASB 108 option on returning to Tier 2. This is consistent with paragraph 19(a) of AASB 1053 exempting application of AASB 1 for transition to Tier 2 as a non-reporting entity applying all recognition and measurement requirements of Australian Accounting Standards, including those of AASB 1;

(c) it should be proposed that paragraph 18 of AASB 1053 should be amended to also allow the transition of relevant entities to Tier 2 using the approach of retrospective application of accounting policies under AASB 108 rather than AASB 1. However, transition to Tier 1 for such entities would continue to require application of all relevant requirements of AASB 1;

(d) it should be clarified that a Tier 2 entity that has applied AASB 1 when transitioning to Tier 1 in a previous period can apply either AASB 1 or the AASB 108 option on returning to Tier 1. Such an entity cannot claim IFRS compliance on return to Tier 1 if it was not IFRS compliant prior to its previous transition from Tier 1 to Tier 2;

(e) it should be clarified that a Tier 2 entity transitioning to Tier 1 for the first time can claim compliance with IFRSs only if the accounting policies adopted under AASB 1 comply with IFRSs; and

(f) it should be proposed that Tier 2 entities applying the AASB 108 option under AASB 1 should comply with the disclosure requirements of paragraphs 23A and 23B of AASB 1, that is, there should be no exemption in respect of these paragraphs for Tier 2 entities.

Members noted that items (c) and (f) would need to be subject to the due process of issuing an Exposure Draft after approval by Board members out of session. However, other amendments and clarifications are consequential and need not be the subject of due process before being implemented through an amending Standard.

Action:	Staff Members

Close of Meeting

The Chairman closed the meeting of the remaining Board members at approximately 1.45 pm. on Thursday 30 May 2013.

Approval

Signed by the Chairman as a correct record
this seventeenth day of July 2013

APPENDIX A

Notes of Comments by AASB Members in Non-Deliberative Session on Agenda Item 11: IASB Conceptual Framework Developments

At this meeting, the AASB conducted a non-deliberative educational session on IASB staff papers regarding developments to date on the draft IASB Discussion Paper (DP) of a revised Conceptual Framework, covering presentation in the statement of comprehensive income and measurement (these IASB staff papers are referred to below as the 'working draft DP'). Comments of AASB members that might be considered for inclusion in future submission(s) to the IASB on its proposals are set out below.

Presentation in the statement of comprehensive income – profit or loss and other comprehensive income

Board members discussed the key issue of whether the statement of comprehensive income should be bifurcated into profit or loss and other comprehensive income (OCI) with subsequent recycling of items of OCI into profit or loss (whether in the same period or a later period). Board members commented that:

(a) they disagree with treating profit or loss as providing the primary picture of financial performance to the extent it is reflected in the statement of comprehensive income – they noted that changes in financial position that do not involve items of current period income or expenses, e.g. changes in gearing, are also aspects of financial performance. Rather than a binary classification of comprehensive income, they preferred a multi-faceted disaggregation of comprehensive income based on differentiated implications for predictive ability of future period financial performance. They considered this presentation more useful for users of financial statements. In this regard, they noted that the attributes for distinguishing profit or loss from OCI set out in Table 1 of the relevant section of the working draft DP (and listed on slide 8 of tabled agenda paper 11.11) are an array of criteria that are more oriented to a multi-faceted disaggregation of comprehensive income;

(b) government finance statistics contain one reasonably conceptual method for disaggregating comprehensive income, i.e. clearly distinguishing transactions from other economic flows, without a need for recycling;

(c) the working draft of the IASB DP does not enunciate a clear principle for distinguishing profit or loss from OCI. In this regard, the guidance on financial performance in the 'Objective' chapter of the IASB Conceptual Framework appears more focused on the composition of total comprehensive income rather than how to make that distinction. In addition, Board members noted that the working draft of the IASB DP does not explain how to determine when it is more relevant to present an item in OCI rather than profit or loss, or when it would provide relevant information to recycle a previously-recognised item of OCI to profit or loss. For example, in determining when to present an item in OCI, it is unclear whether to treat impairments of assets as items of OCI, how to treat the components of remeasurements of provisions (i.e. whether to recognise changes in estimated cash flows in profit or loss and changes in discount rates as items of OCI) and how to treat remeasurements of deferred tax assets and liabilities;

(d) regarding 'mismatched remeasurements':

(i) it is difficult to understand why such items would arise under a Conceptual Framework that is truly conceptual; and

(ii) identifying items as OCI in the form of 'mismatched remeasurements' on the basis that they relate to unrecognised internally generated goodwill would inappropriately incorporate a Standards-level assumption in the Conceptual Framework and would inappropriately provide a rationale for classifying a range of expenses (such as sales staff salaries, and advertising costs) as OCI on the basis that they relate to enhancing the entity's internally generated goodwill;

(e) given the lack of understanding of the economic meaning of OCI under present IFRSs, it is unclear why the IASB might persistent with that term and notion in the proposed revised IASB Conceptual Framework;

(f) if profit or loss were to be regarded as providing the primary picture of an entity's financial performance for a period, and if it were mainly restricted to historical cost measurements, the IASB should explain how profit or loss would provide a useful basis for assessing the amount, timing and uncertainty of future cash flows; and

(g) items of OCI subsequently recycled into profit or loss do not meet the definitions of income and expenses, because changes in assets or liabilities do not occur when the recycling occurs (they occurred when the item of OCI was previously recognised).

Measurement

Board members commented that:

(a) the IASB's Conceptual Framework should include measurement concepts that (if applied) would result in measurements possessing the following qualities:

(i) the amounts can meaningfully be added, subtracted and compared; and

(ii) their economic significance, individually and collectively, is capable of being understood;

(b) to achieve the aspiration in paragraph (a) immediately above, it would be necessary to identify an ideal concept of capital (wealth) rather than presume a mixed measurement model. Any comments along these lines to the IASB should not be couched in the jargon of the accounting literature on concepts of capital and capital maintenance, but should be expressed in terms of fundamental economic notions of wealth and income, supported by an example (or examples) like the oil company example tabled at the Board meeting (agenda paper 11.12);

(c) the Board's submission on the IASB DP should argue that, as a matter of logic, in considering the various alternative measurement attributes or bases, it should be assumed there are material differences between their amounts. The analysis should not be clouded by confusing amounts that may, in practice, happen to be similar (e.g. the measured amounts for items turning over quickly and for which historical and current values may not be far apart) and thus should not gloss over issues on the grounds of coincidental similarities between amounts measured under different bases. AASB comments to the IASB on its Conceptual Framework proposals should argue that the IASB should address the question of what would be the most useful measurement basis for predicting the amount, timing and uncertainty of future cash flows if measurements under each measurement basis differ materially from measures under all of the other possible measurement bases;

(d) regarding the preliminary view in the working draft DP that the most relevant measurement 'method' for an asset or a liability will depend on how the asset will contribute to future cash flows and how the liability will be settled:

(i) those factors should not determine whether the asset or liability is remeasured at each reporting date to a current value. In this regard:

(A) an asset's historical cost should be regarded as a 'sunk cost' that does not have relevance to resource allocation decisions by users (although it could be used as an acquittal tool, but this would not satisfy accountability for managing resources after they are acquired); and

(B) current values of assets and liabilities are more relevant for resource allocation decisions than historical measures of them; and

(ii) in one sense, the IASB's preliminary view described in paragraph (d) immediately above would be particularly appropriate. This sense is that, in choosing a current value approach for measuring assets, it would be illogical to measure assets at their current selling price if the entity would not sell the asset; and

(iii) settlement of liabilities with non-cash consideration is not catered for effectively under the historical cost basis;

(e) the proposed 'Principle 1' in paragraph 6(a) of the working draft DP (the part contained in agenda paper 11.6), that: "The relevance of information provided by a particular measurement method depends on how it affects the statement of financial position, the statements(s) of profit or loss and comprehensive income and if applicable, the statement of changes in equity and the notes to the financial statements" is inappropriate because it treats an accounting response to transactions, events and circumstances as if it were the economic phenomena being depicted. In other words, it treats how an item is measured as the factor that makes it relevant, and is not a measurement principle;

(f) all three proposed measurement 'Principles' in paragraph 6 of the working draft DP (in agenda paper 11.6) should be related back to the statement in the stem of that paragraph that the principles are derived from the objective of financial reporting and the qualitative characteristics of useful financial information;

(g) in respect of proposed 'Principle 2' in paragraph 6(b) of the working draft DP (in agenda paper 11.6), that: "The cost of a particular measurement must be justified by the benefits of reporting that information to existing and potential investors, lenders and creditors", it is unclear why the cost constraint in particular (as opposed to each enhancing qualitative characteristic, e.g. understandability) should be mentioned regarding measurement;

(h) the proposed ‘Principle 3’ in paragraph 6(c) of the working draft DP (in agenda paper 11.6), that: “The number of different measures used should be the minimum necessary to provide relevant information. Unnecessary changes in measurement methods should be avoided, and necessary changes should be clearly explained” seems inappropriate because it is unrelated to the objective and qualitative characteristics;

(i) in relation to an entity’s business model(s):

   (i) it is not apparent from the components of the working draft DP considered at this meeting how an entity’s business model(s) should affect the unit of account adopted for measuring assets and liabilities, and whether it provides a reason for considering management intent when measuring assets and liabilities;

   (ii) the ideal measurement basis for an asset should not depend on the business model for generating cash flows from the asset. In respect of an example of two mining trucks that are identical except that one is held for use and the other is leased to another business, in concept both trucks should be measured using the same current value measurement basis;

   (iii) a business model-driven approach to measurement would be incompatible with applying the exit price notion of fair value in IFRS 13 *Fair Value Measurement*; and

   (iv) the distinction made between goods bought and sold on the same market and other goods of the entity, under current cost accounting as previously promulgated in Australia, implicitly reflected a ‘business model’ notion.

(j) it should be borne in mind that users might want information under different measurement bases for a particular asset (or class of assets) or liability (or class of liabilities), which might prompt consideration of disclosure of additional measurements by way of note. For example, users might want information about the contractual amounts of receivables, in addition to amounts for those receivables that are net of any recognised impairments;

(k) they disagree with the preliminary views in the working draft DP that:

   (i) the discussion of capital maintenance concepts in the existing Conceptual Framework should remain unchanged for the time being; and

   (ii) any change to the discussion of capital maintenance concepts should only occur if and when any standards-level project on accounting for high inflation indicates a need for change,

because they consider it is necessary to identify an ideal concept of capital (wealth) rather than presume a mixed measurement model – whether inflation is high is irrelevant to that endeavour;

(l) the working draft DP does not address the meaning of ‘cost’, and subsequent measurement, in relation to liabilities that are subject to variable or contingent pricing; and

(m) examples provided by the IASB should go beyond financial instruments, to test the robustness of the proposed principles.

Sector-neutral expression

Board members also commented that the Board's submission on the IASB DP should argue for using sector-neutral expression in the Conceptual Framework wherever possible, to help facilitate the development at some point of a common Conceptual Framework for reporting entities in all sectors of the economy, whether for-profit or not-for-profit