Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the 132nd meeting of the AASB
Venue:	Ken Spencer Room, AASB offices Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 17 July 2013 from 9.00 a.m. to 5.10 p.m. Thursday 18 July 2013 from 8.30 a.m. to 11.40 a.m.

All agenda items except items 1 and 6 were discussed in public. Items 12 and 13 were not used.

Attendance

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

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

AASB

The AASB congratulated the Chairman on his induction into the Australian Accounting Hall of Fame. The Chairman noted that Robert Williams has resigned from the AASB effective 30 June 2013.

Treasury

The Chairman noted that he and a AASB staff member had been invited to attend the HoTARAC meeting on Friday 19 July. Peter Gibson (Board member) will also attend.

Australian Charities and Not-for-profits Commission (ACNC)

The Chairman clarified the Board's relationship with the ACNC. The Board will assist the ACNC in developing its requirements for special purpose financial statements.

FRC

The Chairman noted that the Director – Research/Deputy CEO attended the FRC meeting held in Melbourne on 13 June where it was agreed that the scheduled FRC October meeting would be cancelled given resource constraints and the closeness to the November meeting.

IASB/AOSSG/ASAF

The Chairman noted that:

(a) the Board's discussion dealing with the IASB's feedback statement *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* (previously agenda item 12) would be scheduled for the next Board meeting on 4-5 September;

(b) he and several AASB staff attended:

- (i) a Regional Policy Forum;
- (ii) an interim AOSSG informal meeting; and
- (iii) an IASB roundtable dealing with the impairment of financial instruments:

(c) AASB staff played a leading role in the AOSSG's first round of train-the-trainer sessions held in Nepal;

(d) in relation the IASB's Discussion Paper dealing with a revised Conceptual Framework to be issued on the 18 July 2013 he had asked for the IASB to extend the closing date, from 14 January to late March; and

(e) AASB staff participated in a conference call, with ASAF members, dealing with the issue of expected credit losses.

Accounting and Finance Association of Australia and New Zealand (AFAANZ)

The Chairman noted that the Director – Research delivered a paper at the recent AFAANZ conference in Perth. Participants were positive about the ability of the AASB's Research Centre to influence the IASB's agenda and policy.

Other

The Chairman noted several other issues as follows:

(a) AASB staff will host Roundtables in both Melbourne and Sydney to discuss the IASB's Exposure Draft ED/2013/3 *Insurance* and ED/2013/6 *Leases;*

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

(c) the AASB's new technical staffing structure formally commenced on 1 July 2013; and

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

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for both days of the meeting from Michelle Embling, John O'Grady, Roger Sexton and Robert Williams.

Minutes

The Board approved the minutes of the one hundred and thirty first meeting held on 17-18 July 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 (29-30 May 2013), the Board has approved out of session the following Exposure Drafts, Standard and Interpretation:

(a) ED 243 *Withdrawal of AASB 1031* Materiality, with comments due by 23 August to the AASB;

(b) Tier 2 Supplement to ED 230 *Classification and Measurement: Limited Amendments to AASB 9,* with comments due by 16 September to the AASB;

(c) Tier 2 Supplement to ED 237 *Financial Instruments: Expected Credit Losses,* with comments due by 16 September to the AASB;

(d) AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*; and

(e) AASB Interpretation 21 *Levies*.

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

(a) ED 244 *Insurance Contracts*; and

(b) ED 245 *Bearer Plants.*

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 2 July 2013 re: AASB Work Program (agenda paper 3.1);

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

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

(d) Submissions Pipeline Report (2 July 2013) [Board only] (agenda paper 3.1.3);

(e) AASB Sub-committee membership listing as at 2 July 2013 [Board only] (agenda paper 3.2);

(f) letter from AASB Chairman to the International Accounting Standards Board Chairman dated 7 June 2013 re IASB Request for Information: *Rate Regulation* (agenda paper 3.3);

(g) letter from AASB Chairman to Technical Director, International Public Sector Accounting Standards Board dated 3 June 2013 re IPSASB Exposure Draft *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (agenda paper 3.4);

(h) ACNC media release, *QUT and not-for-profit sector reduce red tape to save charities millions* dated 12 June 2013 (agenda paper 3.5);

(i) Communications Report dated 30 May 2013 – 15 July 2013 [Board Only] (Tabled agenda paper 3.6); and

(j) letter from AASB Chairman to First Assistant Secretary, Department of Finance and Deregulation dated 18 June 2013 re Clarification of the intent of Aus Paragraph 26.2 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and reply from AASB Chairman dated 4 July 2013 (Tabled agenda paper 3.6).

IFRS Interpretations Committee

Agenda Item 4

The Board had before it a memorandum from Nikole Gyles dated 23 June 2013 re IFRS Interpretations Committee update (agenda paper 4.1).

The Board received an update on recent IFRS Interpretations Committee activities and decided that, with the exception of IFRIC Interpretation 21 *Levies* (item 16 below) there were no issues that need to be raised with the Committee at this stage.

Action: Staff

Emerging Issues

Agenda Item 5

Victor Clarke noted that the ASIC appear to have increased activity in surveillance of large proprietary companies using SPFRs.

Brett Rix commented on:

(a) the issue of MRRT. Some participants in the resource sector are expected to report significant changes in their MRRT deferred tax balances and corresponding tax expense as they respond to the impacts of volatile commodity prices, exchange rates, escalating operating costs and constrained capital budgets; and

(b) the apparent diversity in practice of interpretations of IFRIC 20 *Stripping Costs in the Production Phase of a Mine*.

Peter Gibson commented on the difficulty in practice (in the Government sector) of:

(a) identifying the nature of transactions involving the sale of spectrum licences; and

(b) accounting for Higher Educations Loans.

Review

Agenda Item 6

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

The Board agreed with the AASB staff that it would present, to the Board, the results of its activities against strategy every second Board meeting rather than at each Board meeting.

Action: Staff

Financial Instruments

Agenda Item 7

The Board had before it:

(a) a memorandum from Christina Ng and Sue Lightfoot dated 2 July 2013 re: Financial Instruments Project Update (agenda paper 7.1);

(b) the AASB submission to the IASB on ED/2013/3 *Financial Instruments: Expected Credit Losses* (Tabled agenda paper 7.2); and

(c) submissions 3-9 (from QBE, University of Technology Sydney, HoTARAC, National Australia Bank, ANZ, Ernst & Young and PricewaterhouseCoopers respectively) to the AASB on ED 237 *Financial Instruments: Expected Credit Losses* (Tabled agenda paper 7.3).

The Board received an update on the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9 *Financial Instruments* relating to classification and measurement, impairment, general hedge accounting and macro hedge accounting.

The Board noted:

(a) the IASB discussed the feedback on IASB ED/2013/4 *Classification and Measurement: Limited Amendments to IFRS 9* at its June 2013 meeting. No decisions were made;

(b) the comment letters the Board had received from constituents on AASB ED 237 (which incorporates IASB ED/2013/3 *Financial Instruments: Expected Credit Losses*) and its final submission to the IASB on that Exposure Draft (comments closed on 5 July 2013). The Board also noted the further comments provided in these comment letters were not inconsistent with the feedback it received at the AASB roundtable discussions;

(c) the IASB's forthcoming general hedge accounting requirements in IFRS 9 are expected to be issued in the third quarter of 2013; and

(d) an IASB Discussion Paper on macro hedge accounting is expected in the second half of 2013.

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

The staff agreed to include as an agenda paper for the September Board meeting the IASB's presentation on Macro Hedge Accounting.

Action: Staff

IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports*

Agenda Item 8

The Board had before it:

(a) a memorandum from Jim Paul dated 2 July 2013 (agenda paper 8.1);

(b) AASB Staff Issues Paper on IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports* (agenda paper 8.2); and

(c) IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports* (agenda paper 8.3).

The Board discussed the key issues to raise in its submission on IPSASB Conceptual Framework ED *Presentation in General Purpose Financial Reports*, on which submissions are due to the IPSASB by 15 August 2013. The Board tentatively decided to express the following views on the IPSASB ED, subject to considering any comments it might subsequently receive from constituents:

(a) the IPSASB should be congratulated for addressing the topic without the benefit of a well-developed standard setting literature on the topic, and for producing an ED that is well-structured and concise;

(b) the ED should be regarded as the first stage of a larger exercise and therefore should only form the basis of a Conceptual Framework chapter on ‘Presentation’ if the IPSASB commits to reviewing and updating that chapter on a timely basis in light of the outcomes of various international projects on presentation and/or disclosure currently in progress (including the IASB’s work on concepts for presentation and disclosure as part of its Conceptual Framework project). It would not be appropriate for an IPSASB chapter based on the ED to be considered the completion of the IPSASB’s concepts on ‘presentation’, because the ED does not include sufficient principles that would be useful in answering the ‘presentation’ questions the ED identifies;

(c) to avoid confusion and unnecessary change, ‘presentation’ should not be the overarching term that encompasses the selection, location and organisation of information in a GPFR: either ‘display’ or ‘disclosure’ (whichever is more generally accepted) should be used, as these are more descriptive of the underlying notions. If the IASB were to confirm that ‘disclosure’ should be used as an overarching term, the IPSASB should also use ‘disclosure’ as an overarching term;

(d) the IPSASB’s chapter on ‘Presentation’ should clarify more effectively than in the ED that:

  (i) some information in a GPFR is more critical than other information;

  (ii) how information is displayed can affect its interpretation by users; and

  (iii) information shown on the face of a financial statement is not necessarily more critical than information shown in a note. Related to the point in paragraph (ii) above, the chapter should note that disclosure in notes apparently will not remedy non-recognition or poor recognition of elements of financial statements;

(e) in relation to the points in paragraph (d) above, how information is displayed (and, in particular, how more critical information is distinguished from other information) is a more complex and nuanced issue than merely a dichotomy between ‘display’ and ‘disclosure’ (as those terms are used in the IPSASB ED);

(f) it supports the IPSASB's decision, enunciated in paragraph BC9 of the Basis for Conclusions on the IPSASB ED, that 'displayed' information (i.e. information reported on the face of a financial statement) is not more important than 'disclosed' information (i.e. information disclosed in the notes). However, the IPSASB ED is ambiguous regarding this point, having regard to the wording of paragraphs 1.3 and 1.4 of the ED, and the IPSASB's intention (set out in paragraph BC9) should be clarified;

(g) the AASB Chairman's forthcoming Research Paper on a Disclosure and Presentation Framework should be noted as an example of current developments with potential implications for the international debate regarding 'Presentation'; and

(h) regarding the amendments to paragraph 2.1(c) of the IPSASB ED suggested in paragraph 31 of Agenda Paper 8.2, the suggested reference to 'other GPFRs' should be amended to 'limited-purpose GPFRs'. This would avoid referring in effect to multiple GPFRs and thus giving different meanings to the general concept of a 'GPFR'.

The Board directed staff to prepare a draft submission on the IPSASB ED, reflecting the Board's tentative decisions noted above and taking into account any comments from constituents, for consideration by its IPSASB Conceptual Framework Subcommittee (Jayne Godfrey, Brett Rix and Kevin Stevenson), before seeking the Chairman's approval.

Action:	AASB Staff IPSASB Conceptual Framework Subcommittee AASB Chairman

Insurance

Agenda item 9

The Board had before it:

(a) a memorandum from Sue Lightfoot dated 3 July 2013 re Insurance Contracts Update and Status Report (agenda paper 9.1);

(b) AASB ED 244 *Insurance Contracts*, (incorporating IASB ED/2013/7 *Insurance Contracts*) (agenda paper 9.2); and

(c) IASB Snapshot: Insurance Contracts (agenda paper 9.3).

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

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

The model proposed in ED/2013/7 includes some significant differences from the model proposed in ED/2010/8. They include proposed requirements on:

(a) remeasurement of contractual service margins;

(b) presentation of insurance contract revenues and expenses;

(c) presentation of changes in discount rates in other comprehensive income;

(d) measurement of insurance contracts with specified links to returns on underlying items; and

(e) retrospective application on transition.

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

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

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

Action: Staff

Leases

Agenda item 10

The Board had before it an issues paper on *Leases* Education Session (agenda paper 10.1).

The Board held preliminary discussions on AASB ED 242 *Leases*, which is open for comment until 13 August 2013 (and incorporates IASB ED/2013/6, which is open for comment until 14 September 2013). Some of the preliminary issues discussed included:

(a) general support for the ED proposals to bring all leases onto the balance sheet for lessees;

(b) concern about the level of complexity the proposed classification model would create;

(c) concern about accounting model that differs based on the nature of the underlying asset, rather than the economics of the transaction;

(d) concern that the single lease expense approach does not reflect the economics of lease arrangements and lacks conceptual rigour; and

(e) the possibility that the exception from lease accounting requirements for short-term leases may present structuring opportunities for entities.

No decisions were made.

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

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

Action: Staff

Defined Benefit Plans: Employee Contributions

Agenda Item 11

The Board had before it:

(a) a memorandum from Kala Kandiah and Angus Thomson dated 25 July 2013 in relation to IASB ED/2013/4 *Defined Benefit Plans: Employee Contributions* (agenda paper 11.1);

(b) AASB ED 239 *Defined Benefit Plans: Employee Contributions* (agenda paper11.2); and

(c) Submissions received on ED 239 (agenda paper 11.3).

The Board considered the proposals of IASB ED/2013/4 to amend paragraph 93 of IAS 19 *Employee Benefits* as follows:

(a) to allow contributions from employees or third parties as set out in the formal terms of a defined benefit plan to be excluded from being attributed to periods of service as a negative benefit and recognised as a reduction in the service cost in that period if, and only if, they are linked solely to the employee's service rendered in the same period in which they are payable; and

(b) to specify that the negative benefit from contributions from employees or third parties should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70, when they are not recognised as a reduction in the service cost in the same period in which they are payable.

The Board considered the comments it received on AASB ED 239 (which incorporates IASB ED/2013/4) and decided that its submission to the IASB should express concern that:

(a) there is insufficient clarity in the Basis for Conclusions to the IASB ED to form a view on the proposals, particularly those relating to the proposed treatment of employee contributions to a defined benefit plan that are linked solely to the employee's service rendered in the same period in which the payments are made; and

(b) without further guidance in IAS 19, it is not clear how an employer would determine under which circumstances employee contributions or third party contributions would be linked solely to the employee's service in that period.

The Board, decided to support the IASB proposal to specify in paragraph 93 of IAS 19 that when contributions from employees or third parties are not recognised as a reduction in the service cost in the same period in which they are payable (and they are instead treated as a negative benefit), they should be attributed to periods of service in the same way that the gross benefit is attributed in accordance with paragraph 70 of IAS 19.

The Board decided to finalise its submission to the IASB on ED/2013/4 via the Chairman.

Action	Staff
	Chairman

IASB Conceptual Framework Developments (Draft IASB Discussion Paper)

Agenda Item 14

The Board had before it:

(a) a memorandum from Jim Paul dated 2 July 2013 (agenda paper 14.1);

(b) AASB Staff Issues Paper on *IASB Conceptual Framework Developments (Draft IASB Discussion Paper): Definitions of the Elements of Financial Statements* (agenda paper 14.2);

(c) AASB Staff Issues Paper on *IASB Conceptual Framework Developments (Draft IASB Discussion Paper): Recognition and Derecognition of the Elements of Financial Statements* (agenda paper 14.3);

(d) IFRS Staff Paper – for IASB's April 2013 meeting – Agenda Paper 10B(a): *Elements of financial statements* (agenda paper 14.4);

(e) IFRS Staff Paper – for IASB's April 2013 meeting – Agenda Paper 10C(a): *Additional guidance to support the asset and liability definitions* (agenda paper 14.5);

(f) IFRS Staff Paper – for IASB's April 2013 meeting – Agenda Paper 10D(a): *Recognition and derecognition* (agenda paper 14.6); and

(g) AASB Staff PowerPoint-based presentation (agenda paper 14.7; tabled).

The Board noted the expected publication date of the IASB Discussion Paper (DP) of a revised Conceptual Framework is 18 July 2013, London time [the DP was issued on that date]. The Board also noted the IASB DP is expected to have a comment period ending on 14 January 2014. At this meeting, the AASB conducted a non-deliberative, 'educational' session on IASB staff papers preceding the draft DP, covering the definitions of the elements of financial statements, and recognition of those elements (the Board deferred discussion of derecognition of the elements of financial statements to a future meeting). No decisions were made. Comments of AASB members that might be considered for inclusion in future submission(s) to the IASB on its DP are set out in Appendix A to these minutes.

The Board noted the IASB is not seeking comments on the chapters already issued on the Objective and Qualitative Characteristics, or further comments on the 2010 ED of a Reporting Entity chapter.

The Board will hold further sessions on the DP at future meetings. The Board noted that the DP will be incorporated into an AASB Invitation to Comment (ITC) and published shortly. Furthermore, the Board noted that forums will be conducted on the ITC during the comment period (preferably in October). At those forums, presentations on aspects of the IASB DP would be followed by discussions with participants.

Action: Staff

Regulatory Deferral Accounts

Agenda Item 15

The Board had before it:

(a) a memorandum from Kala Kandiah dated 25 July 2013 in relation to IASB ED/2013/5 *Regulatory Deferral Accounts* (agenda paper 15.1); and

(b) AASB ED 240 *Regulatory Deferral Accounts* (agenda paper15.2).

The Board considered preliminary staff views on the proposals of IASB ED/2013/5 [open for comment until 4 September 2013]. The Exposure Draft proposes an interim standard to allow entities that currently recognise regulatory assets and regulatory liabilities in accordance with their previous GAAP to continue to recognise the effects of rate regulation under IFRS until the comprehensive Rate-regulated Activities project is completed. The proposals, if adopted in Australia, would not be expected to have an impact on Australian entities. Nevertheless, the Board decided that it would provide comments to the IASB, to assist the IASB in making a decision on whether it should proceed with the introduction of an interim standard for entities with rate-regulated activities. AASB ED 240 (which incorporates the IASB ED/2013/5) is due for comment by 5 August 2013.

Subject to any additional issues identified in comment letters received by the Board in response to AASB ED 240, the Board intends expressing concerns to the IASB that:

(a) the proposal to reduce the barriers to the adoption of IFRS for entities with rate-regulated activities could result in the IASB inappropriately setting a precedent of introducing additional interim standards for first-time adopters of IFRS to encourage transition to IFRS; and

(b) the proposed interim standard would reduce comparability between first-time adopters of IFRS that choose to apply the proposals and those that already apply IFRS or first-time adopters of IFRS that do not elect to apply the proposals.

The Board tentatively decided to finalise its submission to the IASB on ED/2013/4 via the Chairman, subject to subject to the nature of any responses that might be received from constituents.

Action: Staff
Chairman

Interpretation 21 *Levies*

Agenda Item 16

The Board had before it:

(a) a memorandum from Ahmad Hamidi dated 2 July 2013 (agenda paper 16.1); and

(b) an issues paper: *Examining the Implications of Australian Interpretation 21 Levies for Emission Liabilities under the Fixed Price Phase of the Carbon Pricing Mechanism* (agenda paper 16.2).

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

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

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

The Board decided that its concerns about Interpretation 21 should be raised with the IFRS Interpretations Committee citing various examples of analogous circumstances, not limited to the CPM, such as some State-based payroll taxes. The Board also decided to inform constituents that, in the meantime, emitter entities would need to use judgement in considering the potential effect of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 21.

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

Action: Staff
Chairman

IPSASB Report

Agenda Item 17

The Board had before it:

(a) a memorandum from Clark Anstis dated 2 July 2013 (agenda paper 17.1); and

(b) New Zealand report on the IPSASB meeting, June 2013 (agenda paper 17.2).

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

(a) the IPSASB approved for issue its first two Recommended Practice Guidelines: RPG 1 *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* and RPG 2 *Financial Statement Discussion and Analysis*. (The IPSASB issues RPGs, rather than mandatory Standards (IPSASs), to address areas of financial reporting other than general purpose financial statements.) The two RPGs are expected to be issued in July. In the light of RPG 1, the Board (AASB) decided to explore financial sustainability to see whether to add a project to its work program, noting that it would have links to other topics, such as financial performance;

(i) the IPSASB carried out a preliminary review of the submissions received on its Conceptual Framework Exposure Drafts concerning elements and recognition (CF-ED2), and measurement (CF-ED3). The IPSASB confirmed that, although its Conceptual Framework project is not an IFRS convergence project, it would aim to avoid unnecessary differences from the IASB's conceptual framework;

(j) progress on various IPSASB projects – reporting service performance information (RPG), first-time adoption of IPSASs, an update of its IPSASs on consolidation and joint arrangements, government business enterprises, and IPSASs and GFS reporting guidelines;

(k) two projects were added to the IPSASB's work program for commencement during 2013-2014: social benefits, and emission trading schemes. The latter project is intended to be a collaborative research project with the IASB; and

(l) an IPSASB Governance Review Group has been established to address possible oversight and governance arrangements for the IPSASB. The Group is chaired by the IMF, the OECD and the World Bank.

The IPSASB next meets in September 2013.

Action: Staff

Close of Meeting

The Chairman closed the meeting at approximately 11.40 am on Thursday 18 July 2013.

Approval

Signed by the Chairman as a correct record
this fourth day of September 2013

APPENDIX A

Notes of Comments by AASB Members in Non-Deliberative Session on Agenda Item 14: IASB Conceptual Framework Developments

At this meeting, the AASB conducted a non-deliberative, 'educational' session on IASB staff papers preceding the draft IASB Discussion Paper (DP) of a revised Conceptual Framework, covering the definitions of the elements of financial statements, and recognition of those elements. No decisions were made. Comments of AASB members that might be considered for inclusion in future submission(s) to the IASB on its DP are set out below.

General

Board members commented that:

(a) when considering possible concepts, such as those of the elements of financial statements, it is important to identify economic phenomena that exist before considering accounting responses to those phenomena;

(b) the Board's submission on the IASB DP should not be constrained by the structure of the DP; it is important to consider what the DP should cover and comment on any aspects that are missing or out of sequence; and

(c) the IASB Conceptual Framework should be aspirational. Consistent with the comment in (a) above, if accounting responses are addressed without first identifying the economic phenomena that exist and should be accounted for, there would be a risk that the concepts developed will not be aspirational, but instead will peek ahead to acceptable outcomes.

Definitions of the elements of financial statements

Board members commented that:

(a) they support the draft preliminary view to define an asset and a liability as, respectively, a resource and an obligation. This would clarify the distinction between an existing asset or liability and the future flows of economic benefits expected to result from that asset or liability;

(b) they support the draft preliminary view to remove 'expected' from the existing definitions of an asset and a liability. This would address misinterpretations that, in applying the existing definitions, 'expected' means probable. Those Board members broadly supported the draft preliminary view that, in addressing the impact of outcome uncertainty[1] in determining whether an asset or a liability exists, the important issues are, respectively, whether:

    (i) the resource is capable of producing economic benefits; and

    (ii) the present obligation is capable of resulting in a transfer of economic resources;

[1] Board members' more general comments on outcome uncertainty are in comments (a) and (b) of the section below entitled "Recognition of the elements of financial statements".

(c) regarding the draft preliminary view on the definition of an asset, they have concerns about the phrase that an economic resource (asset) is a "source of value … but only for the party that controls it" (agenda paper 14.4, paragraph 14). They remarked that:

(i) although that phrase would work in excluding clean air as an asset of any particular entity, it would inappropriately exclude resources that may provide different benefits to the entity and other parties. For example, intellectual property (such as a cure for a disease) might generate cash inflows for an entity but also provide benefits to the community at large; and mining town facilities provide benefits to town inhabitants, not just to the mining entity;

(ii) to address the problem in (i) above, it would be preferable to refer to 'parties' rather than 'party'; and

(iii) in any event, control should be treated as a recognition criterion (an accounting response) rather than a characteristic of the economic phenomenon represented in the definition of an asset;

(d) they do not support the draft preliminary view to retain the phrase "resulting from past events" in the definitions of an asset and a liability. Past events are not a characteristic of an existing economic phenomenon (an asset or a liability), and should be considered in the context of recognition criteria rather than definitions of the elements. In addition, referring to past events in the definitions could create an expectation regarding how assets and liabilities should be measured, rather than leaving that aspect to the measurement chapter of the Conceptual Framework;

(e) they consider that the concept of a present obligation should exclude constructive obligations, if 'constructive obligations' were described as unenforceable 'obligations'. This is because, if a promise or stipulation were not enforceable against the entity, the entity cannot be obliged to transfer an economic resource. An essential characteristic of a present obligation is that another party (or other parties) holds rights to receive transfers of economic resources from the entity. It should not be necessary for the identity of the other party (or parties) to be known (e.g. their identity might not be known in the case of environmental restoration obligations). The Board members expressing this view indicated that 'enforceable' obligations should not be limited to obligations that are legally enforceable, and that an obligation might be legally enforceable before it becomes legally vested (e.g. an employee might be able to sue an employer for inequitable treatment if their employment contract is terminated before a promise to pay long service leave or an employment bonus legally vests. In the case of long service leave, an employee holds an option to continue working in order to meet vesting criteria, while the employer holds an option to terminate their employment. The value of the employer's option is often less than the value of the employee's option.);

(f) if a promise or stipulation were not enforceable against the entity, the view in (e) above should be applied even if that promise or stipulation leaves the entity with 'no practical ability' to avoid a transfer of economic resources. The entity would be economically disadvantaged but there would be no claim against it. Thus, economic compulsion is, of itself, insufficient for a present obligation to exist. It is unclear how taking a different view would not imply that present obligations include intentions to pay salaries for future services by employees, intentions to repair or replace assets essential to the entity's future operations, and intentions to undertake staff training to comply with industry regulations;

(g) adopting the view in (e) above would preclude applying any of the three approaches, discussed in the IASB staff papers preceding the draft IASB DP, to 'obligations' the outcome of which depends on future events. Although each of those approaches is substantially different, none of them would require a promise or stipulation to be enforceable against the entity. Even Approach 1, which would limit present obligations to unconditional obligations, and thus be limited to 'obligations' resulting in future transfers of economic resources the entity cannot avoid through its future actions, would be a broader notion of a 'present obligation' than that in (e) above. This is because an entity might consider itself unable to avoid a future transfer in relation to a promise or stipulation that is not enforceable against it; and

(h) they support the draft preliminary views that:

(i) distinguishing gains and losses from revenues and expenses would require defining 'ordinary activities';

(ii) a definition of 'ordinary activities' should not be developed in the Conceptual Framework project; and

(iii) gains and losses should not be defined as separate elements from other components of income and expenses; and

(b) there are no other significant reasons to amend the definitions of 'income' and 'expenses' in the existing IASB Conceptual Framework.

Recognition of the elements of financial statements

Board members commented that:

(a) they support the draft preliminary view to distinguish existence uncertainty and outcome uncertainty in relation to assets and liabilities;

(b) in relation to outcome uncertainty, it is important to bear in mind that, for some obligations:

(i) it might be uncertain whether a future event will occur that requires a transfer of cash by the entity; but, nevertheless,

(ii) it might be certain that the entity will be required to transfer other assets by rendering the service of standing ready to transfer cash or cash equivalents if that uncertain future event occurs (e.g. as occurs with loan guarantees, insurance contracts and options written). Conversely, the counterparty (i.e. the holder of the entity's promise) would have a certain right to receive the service of the entity standing ready to make those uncertain future transfers of cash or cash equivalents;

(c) they do not support the draft preliminary view that probability (of an inflow or outflow of economic resources) should not be a recognition criterion for the elements of financial statements – however, some of them would agree with applying that draft preliminary view to a particular element if all uncertainties affecting that element are reflected in its measurement (e.g. if an element is measured at its expected value). Of those who supported retaining a probability-based threshold as a recognition criterion for the elements of financial statements, all of them supported applying the same threshold to assets and liabilities (i.e. being neutral), and:

(i) some expressed support for a 'probable' criterion (i.e. more likely than not); whilst

(ii) others expressed support for recognising all elements with a 'more than remote' possibility of resulting in an inflow or outflow of economic resources and then measuring those recognised elements at an expected value (e.g. in relation to claims subject to litigation);

(d) if a probability-based threshold were applied as a recognition criterion for the elements of financial statements, an issue to consider is the unit of account to which the threshold should be applied (i.e. should the threshold be applied separately to each item or to groups of similar items?);

(e) an issue to consider is whether it would be logical to apply a probability-based threshold as a recognition criterion for the elements of financial statements and then measure some elements at amounts that reflect uncertainties regarding the amount or timing of future inflows or outflows (as applicable) of economic resources. Views expressed included:

(i) there is no apparent reason why uncertainties should only be addressed in measurement;

(ii) the significance of the issue would in practice tend to diminish over time, because probability-weighted estimates would tend over time to more closely approximate actual outcomes; and

(iii) regardless of how an asset or a liability is measured, it would be illogical to recognise items that are not expected to result in an inflow or outflow of economic resources;

(e) of those Board members who support applying a 'probable' criterion for recognition (see paragraph (c)(i) above), some think consideration should be given to whether that criterion should be applied by recognising the median outcome (i.e. single most likely outcome), the expected value (probability-weighted average of all possible outcomes) or the maximum amount that is more likely than not to occur (i.e. an amount based on cumulative probabilities). They noted that these approaches are discussed in Warren McGregor's draft Occasional Paper on 'Liabilities' (which is expected to be published by the Office of the AASB during the third quarter of 2013);

(f) they support the draft preliminary view that, in some cases, recognising rights and obligations may provide information that is not relevant or is not sufficiently relevant to justify the cost of recognising them. Some of those Board members commented that:

(i) for a particular entity, applying a relevance criterion for recognition is essentially the same as applying a materiality test;

(ii) ideally, the IASB Conceptual Framework should deal with the financial statement elements that exist (economic phenomena) before dealing with accounting responses to those elements (which include applying the qualitative characteristics to those elements and identifying which elements should be recognised and how they should be measured); and

(iii) it is appropriate to acknowledge the cost constraint in financial reporting as a recognition criterion. However, it should also be noted that standard setters – rather than individual entities – should make that assessment, and it is reasonable to question whether the cost constraint set out in the Qualitative Characteristics chapter of the IASB Conceptual Framework merits repeating in a chapter on recognition of the elements of financial statements;

(g) whether to agree with the draft preliminary view that recognising internally generated goodwill would provide little or no benefit to users is a semantic question that cannot be solved. This is because the calculated amount of 'internally generated goodwill' frequently would be significantly composed of internally generated identifiable intangible assets, such as customer relationships, that are not identified and recognised. Therefore, it is necessary to address the identification and recognition of internally generated identifiable intangible assets before solving the issue of how to treat internally generated goodwill; and

(h) they support the draft preliminary view that the IASB Conceptual Framework should not include recognition criteria relating to the enhancing qualitative characteristics (i.e. comparability, verifiability, timeliness and understandability).