



Issue: Number 130
Date: 11 December 2009
Subject: AASB Meeting 103, 9-10 December 2009

GAAP/GFS Harmonisation

The Board noted the FRC's view that the Board's tentative decision to issue non-mandatory guidance on GAAP/GFS harmonisation for entities within the GGS would not satisfy the FRC's broad strategic direction. The Board discussed the FRC's view with the FRC Chairman, particularly noting the due process the Board has gone through in arriving at its tentative decision, and decided to consider the next step at its February 2010 meeting. To help facilitate discussions at that meeting, the Board directed staff to prepare a draft Standard that is based on ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*, amended to reflect the tentative decisions the Board made after reviewing comments on ED 174 and the subsequent staff work on an illustrative example. At this stage, the Board has not concluded on the publication of that Standard.

Impairment of Statutory Receivables

The Board discussed whether the impairment requirements in AASB 136 *Impairment of Assets* or AASB 139 *Financial Instruments: Recognition and Measurement* apply to 'statutory receivables'. Statutory receivables are non-contractual assets (such as income tax receivables) created as a result of statutory requirements imposed by governments. This issue is one of the 'gaps in GAAP' that public sector constituent groups asked the Board to consider.

The Board expressed the view that the impairment requirements in AASB 136 apply to non-contractual assets, because paragraph AG12 of AASB 132 *Financial Instruments: Presentation* says non-contractual assets "such as income taxes that are created as a result of statutory requirements" are not financial assets.

The Board noted that, in accounting for the impairment of non-contractual assets, professional judgement needs to be applied, including in relation to assessing materiality and using estimates, averages and computational short cuts referred to in paragraph 23 of AASB 136.

Control in the Public Sector

The Board considered a project proposal on control in the public sector and decided that work should proceed along the following lines:

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- (a) Phase 1: determine the extent of the issues and current practice
 - (i) Part 1: identify the current issues arising from the application of control in the public sector. The issues should include the relationship of regulation to control; the relationship of state governments to local governments; administered items; the recognition of elements; the relationship of governments to universities; and special purpose entities in the public sector; and
 - (ii) Part 2: identify approaches currently adopted for dealing with control in the public sector in jurisdictions with conceptual frameworks similar to that in Australia. This should include a description of how the IPSASB deals with the concept of control in IPSAS 6 *Consolidated Financial Statements and Separate Financial Statements*; and
- (b) Phase 2: the definition of control
 - (i) Part 1: assess the existing definition of control in AASB 127 *Consolidated and Separate Financial Statements* against the issues identified in Part 1 of Phase 1 and, having regard to the approaches identified in Part 2 of Phase 1, consider whether there is a need to amend the definition of control and/or supplement the definition with additional guidance in a public sector context; and
 - (ii) Part 2: assess the definition of control being developed by the IASB in its ED 10 *Consolidated Financial Statements* against the issues identified in the same way as noted in Part 1 of Phase 2.

The Board noted that further phases of the project, would be considered after outcomes of Phases 1 and 2 are known. A later phase might include, for example, consideration of whether control is an appropriate basis for identifying the boundaries of a reporting entity within a whole of government entity. This could be undertaken in the context of the disaggregation of a whole of government reporting entity, and might have implications for the current treatment of common control.

Currency (notes and coins) on Issue

The Board discussed the accounting for currency on issue (from the viewpoint of the public sector issuer), particularly in relation to whether it gives rise to a liability or income from the viewpoint of the public sector issuer. The discussion was preliminary in nature and therefore the Board did not express a view. The purpose of the discussion was to decide whether to undertake further work on the topic and the key issues to be resolved. The Board decided that the project should proceed as a low priority and, in the first instance, staff should discuss the issues with the Reserve Bank of Australia. It was noted that this issue could be related to other recognition and measurement issues that may well become more pressing.

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IPSASB: Long-Term Fiscal Sustainability of Public Finances

The Board discussed the nature of the due process it should undertake in response to the IPSASB Consultation Paper *Reporting on the Long-Term Fiscal Sustainability of Public Finances*, which was issued by the IPSASB on 24 November 2009 for comment by 30 April 2010.

The Consultation Paper is related (but not limited) to the IPSASB's ongoing work on reporting of information by governments about social benefits such as pensions, health and education. The IPSASB's preliminary view is that it should develop guidance on recommended practice for reporting by governments on the long-term fiscal sustainability of public finances in general purpose financial reports, either in additional statements to their financial statements or in narrative reporting. The IPSASB does not, as yet, propose developing a Standard on this topic.

The Board decided to make a submission on the IPSASB Paper, and to issue an Invitation to Comment on it. The purpose of the Invitation to Comment is to elicit comments that will assist the Board in participating in the international debate and developing its thinking on this topic. Issuing an Invitation to Comment does not signify that the Board will necessarily develop recommendations or requirements on this topic.

Not-for-profit Reporting in the Private Sector

Service Performance Reporting

The Board considered issues, including those raised by Project Advisory Panel members, relating to the Board's ongoing consideration of service performance reporting. For the purpose of progressing the project, the Board decided to:

- (a) continue its work on service performance reporting even though the Conceptual Framework project has not yet addressed the broader questions of the scope of general purpose financial statements and financial reporting. However, this project will monitor developments in the Conceptual Framework project; and
- (b) adopt a principle for constraining the type of information that the Board would consider requiring in service performance reports as: 'service performance information that relates to an entity's principal objectives'. At a future meeting, the Board will consider the implications of that principle for matters such as the measurability and auditability of information that might be included in service performance reports, and the suitability of a through-the-eyes-of-management approach to identifying such information.

The Board noted that the implications of its Differential Reporting project would need to be considered for service performance reports.

The Board also considered whether the scope of the project should be broadened to include for-profit entities, in light of its *Process for Modifying IFRSs for PBE/NFP*. The Board observed that the principal

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objectives of not-for-profit entities and the needs of users in relation to those objectives are potentially different from the principal objectives of for-profit entities and their related users' needs. Accordingly, the Board decided that the current project should not include for-profit entities within its scope. Consistent with the *Process*, in developing any requirements, regard will be had to the Conceptual Framework, other national standard setters' work and Australian/New Zealand practice.

Furthermore, the Board considered a draft FRSB/AASB joint project plan and agreed that work should be undertaken jointly, with a joint subcommittee undertaking a substantial amount of the review function and preliminary decision making, with the Boards being kept informed of progress throughout. The project plan estimates an Exposure Draft being released in late in the third quarter of 2010.

Differential Reporting

The AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements* issued on 4 December 2009 notes that:

“In releasing this Consultation Paper, the AASB is taking the approach of exposing a proposed reduced disclosure regime for comment and, as soon as possible afterwards, a forthcoming Exposure Draft showing how the regime is intended to apply. If the proposed regime is adopted, the AASB would hope to be able to issue a final pronouncement before the end of June 2010 and to allow early adoption. It is the prospect of early application that is driving this consultation approach. However, it must be stressed that the AASB is open to alternative views. If the consultation process leads to an alternative approach, it may be that more due process will be needed and a different time scale adopted.”

At this meeting, the Board considered a time-line for issuing the ED by February 2010. The Board decided that draft components of the ED — which includes proposed reduced disclosures — should be posted progressively on the AASB website during December 2009 and January 2010 to provide constituents with details of the proposed reduced disclosure regime when commenting on the Consultation Paper.

The closing date for comments on the Consultation Paper will be announced once the Board is comfortable with all the components of the ED posted on the AASB website. A minimum two-month comment period is envisaged from that date.

Superannuation Plans and Approved Deposit Funds

The Board commenced its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds*. ED 179 contains the proposals for a new Australian Accounting Standard to replace AAS 25 *Financial Reporting by Superannuation Plans*.

The Board considered constituents' comments on ED 179 and made a number of tentative decisions, including that the replacement Standard for AAS 25 should:

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- (a) in contrast to the proposal in ED 179, not permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction costs;
- (b) in contrast to the proposal in ED 179, identify the overriding measurement objective for defined benefit obligations as fair value, noting it is likely to be a Level 3 measurement whereby obligations for defined benefit members' accrued benefits would be measured in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations;
- (c) consistent with the proposal in ED 179, require a superannuation plan or approved deposit fund that reinsures some or all of the insurance arrangements that it provides to its members with an external insurer to account for such arrangements in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts* (although see (a) below);
- (d) consistent with the proposal in ED 179, not provide additional guidance in respect of applying the concept of control in a superannuation context. Accordingly, the Board affirmed that the replacement Standard should require a parent superannuation plan or parent approved deposit fund to apply the concept of control as defined in Australian Accounting Standards to identify its subsidiaries; and
- (e) consistent with the proposal in ED 179, require a parent superannuation plan or parent approved deposit fund to prepare and present consolidated financial statements. However, in contrast to the proposal in ED 179, the consolidated financial statements should be prepared in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* (and see (b) below).

In addition, the Board decided to give further consideration to a number of matters, including:

- (a) the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 for measuring defined benefit obligations;
- (b) how any difference between the fair value of a subsidiary and the carrying amount of the net assets of the subsidiary that would be recognised by the parent plan or fund in the consolidated financial statements might be disclosed by the parent, whether or not there is a non-controlling interest in the subsidiary; and
- (c) the outcomes from APRA's enhanced superannuation statistics collections proposals in respect of sub-fund information, and whether the principles and guidance in respect of segregated financial disclosures should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information.

The Board also decided that financial reporting by superannuation entities should be a topic of discussion with the FRSB in the context of convergence between Australian and New Zealand Accounting Standards.

The Board will continue its deliberations on ED 179 at its February 2010 meeting.

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Related Parties

Consistent with revised IAS 24 *Related Party Disclosures* (issued November 2009), the Board agreed to issue AASB 124 *Related Party Disclosures*, with clarification of the reference to related parties of a key management person in various Aus paragraphs in AASB 124, which is needed as a consequence of the changes to the definition of 'related party'. The Board also agreed to issue AASB 2009-12 *Amendments to Australian Accounting Standards* containing consequential amendments arising from revised AASB 124 and editorial corrections to a range of Standards and Interpretations. The Standards apply to annual reporting periods beginning on or after 1 January 2011, with early adoption allowed, and will be available on the AASB website shortly.

Financial Instruments Update

The Board received an update on the financial instruments project and noted that the IASB's Financial Instruments Working Group met on 9 December 2009 to discuss possible approaches to the measurement of financial liabilities. These approaches will also be considered by the IASB at its December 2009 meeting, along with proposals to amend the hedging requirements. The financial instruments project is still expected to be completed by the end of 2010.

Financial Instruments - Amortised Cost and Impairment

The Board considered high-level principles underlying the IASB ED *Financial Instruments: Amortised Cost and Impairment* and the proposed project timeline.

The Board expressed concern about the conceptual basis for the proposed measurement model for financial instruments measured at amortised cost – that is, an expected cash flow approach that incorporates the assessment of expected credit losses – and the practical difficulties that may be encountered in its application. The Board also discussed the appropriateness of some of the disclosures proposed in the ED for non-financial institutions.

In addition, the Board noted that the IASB has formed an Expert Advisory Panel to advise it on how operational challenges from the proposed measurement model might be resolved and to assist in field testing of the model. Staff will continue to research the IASB's proposals and related developments.

Refer also to the note below on the role of Australia in the deliberations of the Asian-Oceanic Standard Setters Group.

Management Commentary

The Board received an education session on the IASB Exposure Draft ED 2009/6 *Management Commentary*, noting that the ED proposes a non-binding framework for the preparation and presentation of management commentary. The proposed guidance would not result in an IFRS, and therefore an entity would not have to comply with the guidance in order to be able assert compliance with IFRSs.

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The Board acknowledged that, in the Australian context, there are existing requirements of the *Corporations Act 2001* and the ASX Listing Rules in relation to management commentary. In addition, the Group of 100 (G100) has published a best practice guidance entitled *Guide to Review of Operations and Financial Condition* that has been reproduced in ASX Guidance Note 10. It also considered the relevance of the principles in the ED to the public sector.

At its February 2010 meeting, the Board plans to consider:

- (a) a comparison of the principles in the G100 guidance with the ED proposals;
- (b) constituent comments on AASB ED 183 *Management Commentary* (which incorporates IASB ED 2009/6); and
- (c) a draft submission to the IASB.

IASB Update/Emerging Issues

Emissions Trading Schemes

The Board received an update on the tentative decisions made by the IASB and FASB at their November 2009 joint meeting in relation to Emissions Trading Schemes, in particular when a liability might be recognised under a voluntary scheme. The Board expressed concern with the IASB and FASB tentative decision that an entity should recognise a liability before the entity had made any emissions. The Board asked staff to convey the AASB's concerns to the IASB project staff.

Leases

The Board received an update on current developments in the IASB project on leases. The Board decided to write to the IASB to express concern about some of its recent tentative decisions, including that any revaluations of 'right-of-use' assets should be accounted for under IAS 38 *Intangible Assets*, since IAS 38 has more restrictive criteria for the evidence of fair value necessary to support a revaluation than is contained in other IFRSs and in its ED *Fair Value Measurement*.

Revenue Recognition

The Board discussed a report on recent decisions by the IASB and FASB in their joint project on Revenue Recognition, and on a recent meeting between staff members of the AASB and IASB on this project. The Board will continue monitoring project developments, including:

- (a) whether the IASB and FASB reaffirm their tentative decision that, in a contract with a customer, the transaction price should be allocated to segments of the contract rather than to individual performance obligations; and
- (b) if so, how contract segments are defined.

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Interpretations

The Board noted the international and domestic Interpretation issues in progress as well as the IFRIC's tentative and final agenda decisions that arose out of the November 2009 IFRIC meeting. The Board was also informed the IASB had issued Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments and Prepayments of a Minimum Funding Requirement* – Amendments to IFRIC 14 and that AASB staff will facilitate having these available for use shortly.

Work Program

The Board reviewed the current work program and an updated version will be available on the AASB website shortly. The Board noted that the document *AASB Approach to Public Sector Issues* is currently under review and will be considered by the Board at a future meeting. Further, it was noted that the Board is to consider its plans for public sector projects in February, taking into account recent input received from the Australian Council of Auditors-General and the Heads of Treasuries Accounting and Reporting Advisory Committee.

In relation to the Board's work on public sector issues, the Board also noted that a recent analysis of staff resources allocated to various projects revealed that approximately 30% of resources were spent on public sector specific issues, 60-65% of resources dealt with issues common to both the public and private sectors and the remaining 5-10% of resources were allocated to private sector specific issues.

Asian-Oceanic Standard Setters Group (AOSSG) Update

The Board received an update on the first AOSSG meeting which took place in Kuala Lumpur, Malaysia in November 2009. The purpose of AOSSG is to strengthen relationships between standard setters in the region and to share views on developments in IASB projects. The Board was informed that Australia and New Zealand are likely to cover all the active projects and is taking the lead on Financial Instruments and De-recognition.

Documents Open for Comment

The following documents are open for comment – once finalised, all submissions to the IASB, IFRIC or IPSASB are available on the AASB website.

Originating Organisation	Topic	AASB No	AASB Due Date	IASB/IFRIC /IPSASB Due Date
IASB	Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	ED 190	Closed	29 Dec 2009
IASB	Management Commentary	ED 183	31 Dec 2009	1 Mar 2010

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IASB	Financial Instruments: Amortised Cost and Impairment	ED 189	17 May 2010	30 Jun 2010
AASB	Consultative Paper: Differential Financial Reporting	N/A	TBA	N/A

Next Meeting on 3-4 February 2010

It is anticipated that the Board will deal with the following items:

- GAAP/GFS Harmonisation – Entities within the GGS
- Differential Reporting
- Management Commentary
- Superannuation Plans and Approved Deposit Funds
- Financial Instruments
- Public Sector Agenda

2010 Meeting Dates

Other meeting dates for 2010 are:

- 17-18 March
- 28-29 April
- 9-10 June
- 28-29 July
- 15-16 September
- 27-28 October
- 8-9 December

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