



Issue: Number 121
Date: 19 December 2008
Subject: AASB Meeting 94, 17-18 December 2008

Board Membership

The Board welcomed the announcement by Senator Nick Sherry, Minister for Superannuation and Corporate Law, that Kevin Stevenson has been appointed as Chairman of the AASB, for a five-year term from 1 July 2009.

The Board expressed its appreciation for the contributions Jan McCahey has made to the activities of the Board and to standard setting domestically and internationally on her retirement from the Board. It is expected that the FRC will announce her replacement shortly.

Superannuation Plans and Approved Deposit Funds

The Board considered a revised version of the draft ED and agreed:

- (a) to propose that all superannuation plans that have defined benefit members determine the present value of their obligations for such members' accrued benefits by attributing benefits to reporting periods on a basis appropriate to the plan's circumstances;
- (b) to clarify that, at each reporting date, non-controlling interests be allocated a relevant share of net assets of subsidiaries that are recognised by the parent at that date;
- (c) to propose that a superannuation plan or approved deposit fund disclose information about expected rates of return; and
- (d) that the example financial statements in the draft ED should be 'road tested' against some published superannuation plan financial statements.

The Board will consider a further revised draft ED at its February 2009 meeting.

GAAP/GFS Harmonisation for Entities within the GGS

The Board considered a draft ED proposing GAAP/GFS harmonisation requirements for entities within the GGS through amendments to AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of*

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Cash Flows and AASB 1052 *Disaggregated Disclosures*. The Board approved the ED for issue, subject to it being amended to reflect the Board's decisions at this meeting, including to:

- (a) further clarify the types of entities to which the proposals would apply;
- (b) allow an entity within the GGS to adopt a net cost of services format for its statement of comprehensive income; and
- (c) specifically seek comments on a range of issues, including whether:
 - (i) the proposals are necessary to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS;
 - (ii) it is appropriate for the proposals to apply to for-profit entities within the GGS;
 - (iii) entities within the GGS should be subject to the principle in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* that, where there is a choice in GAAP that aligns with GFS, that choice should be mandated;
 - (iv) entities within the GGS should be subject to the same kind of budgetary reporting requirements that are specified in AASB 1049; and
 - (v) whether there is a need for specific transitional requirements to facilitate the adoption of the GAAP/GFS harmonisation proposals.

It is intended that the ED will be issued in January 2009 with a four-month comment period. During the early stages of the comment period an illustrative example of financial statements will be developed, ready for consideration at roundtables to be conducted in Melbourne and Canberra. The dates of the roundtables will be made known on the AASB website.

Income from Non-Exchange Transactions

The Board is carrying out a short-term project jointly with the New Zealand FRSB to develop a common Standard based on IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

The Board discussed a draft ED, which included examples based on the IPSAS 23 implementation guidance. Based on the examples attached to the draft ED, the Board considered various approaches to property taxes, including land taxes and local government rates, and requested staff to reconsider the approaches under a range of scenarios. One aspect of this issue is whether local government rates might represent a transaction with both exchange and non-exchange components.

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The Board also discussed the examples concerning inter-government transfers, and decided to request clarification from the IPSASB of some aspects, and will further consider these issues at its February 2009 meeting.

Modifying IFRSs for Not-for-Profit Entities

The Board discussed the most recent draft *Process for Modifying IFRSs* document revised by the New Zealand FRSB and ASRB. The Board asked that the AASB staff and FRSB staff liaise with a view to being able to have the same document for use in Australia and New Zealand.

Interpretations

Interpretations Issues in Progress

The Board reviewed IFRIC and domestic Interpretations in progress and asked staff to liaise with New Zealand FRSB staff with a view to considering the preparation of a submission to the IFRIC on whether an entity can be key management personnel under IAS 24 *Related Party Disclosures*.

Australian Superannuation Contributions Tax

The Board discussed draft Proposed Interpretation 10XX *Australian Superannuation Contributions Tax* and decided that its scope should be restricted to proposing that Australian taxes on superannuation contributions should be included in the measurement of the defined benefit obligation. The Board asked staff to prepare a revised draft Proposed Interpretation for approval at the February 2009 Board meeting.

Non-cash Distributions

The Board approved AASB Interpretation 17 *Distributions of Non-cash Assets to Owners* and made AASB 2008-13 *Amendments to Australian Accounting Standards Arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners*. Interpretation 17 and AASB 2008-13 apply prospectively for annual periods beginning on or after 1 July 2009. Retrospective application is prohibited. Early application is permitted. AASB Interpretation 17 and AASB 2008-13 will be available on the AASB website shortly.

Reclassification of Financial Assets

Effective Date and Transition

The Board made AASB 2008-12 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets – Effective Date and Transition* which clarifies the effective date of the amendments made to AASB 7 *Financial Instruments: Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* by AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets*. AASB 2008-12 will be available on the AASB website.

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Assets Backing Insurance Liabilities

The Board decided not to continue with an ED proposing to amend the Aus application paragraphs of AASB 139 *Financial Instruments: Recognition and Measurement* to prohibit the amendments relating to reclassification of financial assets in AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets* being used by entities applying AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* in respect of assets backing insurance liabilities. At this stage, the Board considers that it should not place further limitations on the use of options available within IFRSs, and plans to monitor the manner in which the reclassification option is being applied by insurers.

Revenue Recognition

The Board noted that the IASB and FASB are likely to issue soon a joint Discussion Paper on Revenue Recognition in Contracts with Customers. The Board decided to invite comment on the Discussion Paper and hold Roundtables on it during the comment period. The dates and locations of the Roundtables will be made known on the AASB website shortly.

Borrowing Costs

IPSASB Submission

The Board finalised its submission on IPSASB ED 35 IPSAS 5 *Borrowing Costs*. The submission reflects the Board's decisions made at its November 2008 meeting. The submission will be available on the AASB website shortly.

Public Sector Not-for-Profit Entities

The Board considered a letter from HoTARAC seeking deferral of the withdrawal of the option to expense borrowing costs for public sector not-for-profit entities. Revised AASB 123 *Borrowing Costs* applicable from 1 January 2009 does not contain the option to expense borrowing costs 'directly attributable' to the acquisition, production, or construction of a qualifying asset.

The Board discussed the merits of the HoTARAC request and agreed that, on balance, deferral is appropriate. This is on the basis that:

- (a) there is an interrelationship between the revaluation model commonly adopted by public sector not-for-profit entities, the use of depreciated replacement cost (DRC) within that model, and the capitalisation of borrowing costs. The Board noted that the New Zealand FRSB is undertaking work on the relationship between DRC and borrowing costs, and the outcome of that work may inform the Board on the appropriate treatment of borrowing costs in the public sector. The Board agreed to participate in the FRSB's work. The Board also noted that the FRSB has deferred the withdrawal of the expensing option for public benefit entities;

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- (b) the Board is still developing its *Process for Modifying IFRSs*, and the treatment of borrowing costs will provide a test case for that *Process* once it is developed, particularly in light of the fact that the Board does not support the mandatory capitalisation treatment of borrowing costs on conceptual grounds; and
- (c) the IPSASB has a project that is considering the treatment of borrowing costs by public sector not-for-profit entities.

The Board will decide whether public sector not-for-profit entities should conform to the treatment of borrowing costs by other entities once the IPSASB has finalised an IPSAS and the Board has considered its suitability in an Australian context in light of the outcome of the FRSB/AASB DRC work and the *Process for Modifying IFRSs*.

Differential Reporting

The Board considered staff papers on the nature of financial statements lodged on a public register, or made available to the public at large in other ways, and tentatively agreed that financial statements made available to the public at large under a legal mandate would be general purpose financial statements.

The Board also discussed the notion that 'financial statements' voluntarily made available to the public at large would be general purpose if they are held out to be general purpose financial statements.

The Board asked staff to prepare an outline for consideration at a future meeting of the process that the Board could undertake to advance its thinking on the basis of its tentative decisions, including the practical implications of those decisions.

IASB Exposure Drafts

Embedded Derivatives

It is expected that the IASB will issue an ED on Embedded Derivatives relating to hybrid financial instruments that are reclassified out of fair value through profit or loss on which we expect the IASB will seek comment by 22 January 2009. The Board plans to issue the ED with comments due by 16 January 2009.

Other Exposure Drafts

The Board noted that the IASB has recently issued an ED on Related Party Disclosures (comment date 13 March 2009) and will issue shortly EDs on Consolidated Financial Statements (expected comment date 20 March 2009) and Income Taxes (expected comment date mid-May 2009). The Board agreed that each ED should be issued as an AASB ED as soon as possible and include a brief Australian Preface highlighting areas identified as being particularly pertinent to Australian constituents.

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It is expected that Australian constituents will be asked to comment to the Board as follows:

- Related Party Disclosures 15 February 2009
- Consolidated Financial Statements 22 February 2009
- Income Taxes 30 March 2009

Submissions received by the Board by these dates will enable the Board to consider them in preparing its own submissions to the IASB.

Submissions on IASB Exposure Drafts

Earnings per Share

The Board considered constituent responses on AASB ED 166 *Simplifying Earnings per Share: Proposed Amendments to AASB 133* which contains the corresponding IASB ED. The Board noted that it considers the revisions to IAS 33 *Earnings per Share* to be a relatively low priority for the IASB given the extent of the IASB's current work program. The Board's submission to the IASB will be included on the AASB website shortly.

Discontinued Operations

The Board considered submissions from constituents on AASB ED 167 *Discontinued Operations: Proposed Amendments to AASB 5*, which contains the corresponding IASB ED.

The Board decided that its submission to the IASB should note its fundamental concern that the IASB proposals do not improve the current requirements relating to discontinued operations. This is because increasing the level at which a discontinued operation is identified to an operating segment means that certain significant discontinued activities would not be presented as such. The Board's submission to the IASB will be included on the AASB website shortly.

First-time Adoption of IFRSs

The Board considered its submission on the IASB ED *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1* and agreed to:

- (a) support the deemed cost proposal for oil and gas assets with the proviso that it must be impracticable to otherwise meet the requirements of IFRS 1; and
- (b) not support the proposal to offer relief in respect of rate regulated operations. The Board took the view that insufficient justification has been provided to support the special treatment of these assets on first-time adoption and expected that the existing 'fair value as deemed cost' option in IFRS 1

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could be applied if it were impracticable for a first-time adopter to determine the historical cost of its rate-regulated assets under IFRSs.

The Board's submission to the IASB will be included on the AASB website shortly.

Financial Instruments: Disclosures

The Board considered submissions from constituents on AASB ED 169 *Improving Disclosures about Financial Instruments: Proposed amendments to AASB 7* which contains the corresponding IASB ED issued in October 2008. The Board decided that its submission to the IASB should express general support for the IASB proposals. The Board's submission to the IASB will be included on the AASB website shortly.

Minutes

The Board approved the minutes of Meeting 93 held on 12-13 November 2008. These are now available on the AASB website.

Next Meeting on 5 February 2009

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

- Consolidated Financial Statements
- Income from Non-exchange Transactions
- Interpretations
- Related Party Disclosures (ED 170)
- Superannuation Plans and Approved Deposit Funds

2009 Meeting Dates

Meeting dates for 2009 are:

- 5 February
- 4-5 March
- 22 April
- 20-21 May
- 24-25 June
- 29-30 July
- 23-24 September
- 28-29 October
- 9-10 December

Unless indicated otherwise, meetings are held in Melbourne.

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