



**Issue:** Number 127  
**Date:** 31 July 2009  
**Subject:** AASB Meeting 100, 29-30 July 2009

## Board Membership

The Board welcomed Kevin Stevenson to his first meeting as Chairman of the AASB and Kevin in turn thanked Bruce Porter for his work as Acting Chairman for the past eight months.

## Financial Instruments – Derecognition

The Board reviewed submissions on ED 177 *Derecognition (Proposed Amendments to AASB 139 and AASB 7)*, which incorporated IASB ED/2009/3 *Derecognition (Proposed Amendments to IAS 39 and IFRS 7)*. ED 177 sought comment on two approaches (a proposed approach and an alternative approach) to replace the existing derecognition requirements. The Board agreed its submission to the IASB expressing support for the alternative approach based on its consistency with the Framework. The Board's submission also notes that the alternative approach should be developed further by the IASB for constituent comment.

## Financial Instruments – Own Credit Risk in Liability Measurement

The Board considered issues relevant to drafting its submission on IASB DP/2009/2 *Credit Risk in Liability Measurement*. The Board's tentative view is that its submission should include a comment that consideration of credit risk in measuring liabilities cannot be resolved without addressing the meaning of a chosen measurement basis. It did not see consistency per se or methodology as the drivers.

Comments on the Discussion Paper are due to the AASB by 7 August 2009 and the IASB by 1 September 2009. The submission will be finalised out of session.

## Financial Instruments – IAS 39/AASB 139

### *Classification and Measurement*

The Board considered AASB staff preliminary comments on ED 184 *Financial Instruments: Classification and Measurement*, which incorporates IASB ED/2009/7 *Financial Instruments: Classification and Measurement*.

The Board tentatively decided to support the view that when fair value is being measured, a Level 3 fair value measurement (based on unobservable inputs) should, prima facie, provide a more appropriate measure than a measurement at cost.

However, the Board acknowledges that the amortised cost measurement will need to be retained in financial reporting and would support that where it accords with the entity's business model and risk management practices (that is, the intention is to recover the value of the instrument from the contractual cash flows and not from trading and realising fair value gains).

Comments on the ED are due to the AASB by 17 August 2009 and 14 September 2009 to the IASB. The Board will consider any submissions it receives on ED 184 and finalise its own submission to the IASB out of session.

### *Expected Loss Model*

The Board considered IASB Request for Information *Impairment of Financial Assets: Expected Cash Flow Approach (Expected Loss Model)*.

---

**The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.**

In relation to the accounting aspects of the expected loss model, the Board expressed a view that the notion of 'expected' needs to be clarified, and that pressure on this term will replace that on 'incurred' in the current model.

In respect of the feasibility of an expected loss model, the Board invites comment from constituents, to be collated and sent to the IASB as part of an AASB submission to the Request for Information. Comments are sought from financial institutions, and other entities with a large volume of debtors, or large volume of other financial assets.

Comments to the AASB are due by 14 August 2009 and by 1 September 2009 to the IASB. The Board will consider any submissions it receives and finalise its own submission to the IASB out of session.

## Fair Value Measurement

The Board considered AASB staff preliminary comments on ED 181 *Fair Value Measurement*, which incorporates the IASB's ED/2009/5 *Fair Value Measurement*, for the purpose of drafting its submission to the IASB. The Board tentatively decided that its submission should express agreement, for the sake of clarity, with the ED's proposal to define 'fair value' as an exit price. However, the IASB should clarify the implications of this definition for the references to fair value in, for example, IAS 16 *Property, Plant and Equipment* and IFRS 3 *Business Combinations*. Further, the IASB should be asked to explicitly clarify whether estimated cash flows should reflect entity-specific efficiencies or inefficiencies in relation to estimating the fair value of performance obligations (e.g. asset retirement obligations) at Level 3 of the fair value hierarchy.

Among other things, the submission could also comment that the proposed financial instruments disclosures are excessive for interim financial reports and inconsistent with the underlying disclosure principle in IAS 34 *Interim Financial Reporting* (i.e. that significant changes be shown).

The Board intends finalising its submission out of session, after considering constituent comments. The due date for submissions to the AASB is 28 August 2009 and by 28 September 2009 to the IASB.

## Differential Reporting

In the course of redeliberating the Board's ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*, the Board had tentatively decided that an alternative reporting regime to the IFRS for SMEs might be necessary if the IFRS for SMEs is considered inappropriate in the Australian context.

At this meeting, the Board considered the reporting entity concept and its application, and an alternative regime to the IFRS for SMEs. The Board clarified that an alternative regime to the IFRS for SMEs is intended to be a substitute for the IFRS for SMEs rather than constituting a third tier of reporting requirements. The Board tentatively decided that:

- (a) the 'reporting entity' concept should be retained as an umbrella concept to distinguish between entities that the Board believes should prepare general purpose financial statements and entities that need not (non-reporting entities). The reporting entity concept could also play a role as a principle guiding regulators in determining entities that would be required to report (and those that would not) within the Australian financial reporting framework. The Board considered that extensive dialogue with regulators would be needed to help ensure consistent application of the principle. In due course, the concept could be reviewed, pending developments in regulation. Nevertheless, the Board was of the view that it needed to proceed with its thinking about how to operationalise the concept and what an entity should be required to do when regulators require it to produce financial reports in accordance with accounting standards, or an entity elects to do so; and
- (b) staff should prepare a 'white paper' articulating the overall policy and technical issues involved in the project. A draft of the paper will be discussed at a forthcoming Board meeting.

The Board also approved a staff paper, which outlines the Board's current thinking on differential reporting issues, to be presented to the FRC in August 2009.

---

**The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.**

## Income Tax

The Board considered constituents' written submissions to the AASB in response to AASB ED 178 *Income Tax* and reviewed a draft AASB submission on IASB ED/2009/2 *Income Tax*. The Board decided that its submission to the IASB should express support for the objectives of clarifying IAS 12 *Income Taxes* and IFRS/US GAAP convergence. However, the AASB has concerns with the complexity of the amendments proposed in the ED, some significant technical matters and, in light of recent economic events, whether it is still appropriate for improvements to IAS 12 to be prioritised ahead of other projects.

Given the history of the debates over income tax, the AASB thinks that in due course the case for a more fundamental longer-term review should be considered. In the meantime, and in the context of the short-term convergence project, the AASB thinks the IASB's focus should remain on removing, where appropriate, exceptions from the temporary difference model so that it is both simplified and relevant to the planned IFRS/US GAAP convergence. In anticipation of the IASB deciding to proceed with the short-term project, the AASB's submission will outline its concerns and suggestions for improving the proposals.

## IPSASB/IFRS Convergence

### *Intangible Assets*

The Board considered and approved a submission on IPSASB ED 40 *Intangible Assets*. The Board's main comments in the submission reflect the decisions made at the June 2009 meeting.

### *Entity Combinations from Exchange Transactions*

The Board considered and approved a submission on IPSASB ED 41 *Entity Combinations from Exchange Transactions*. The Board's main comments in the submission reflect the decisions made at the June 2009 meeting.

### *Financial Instruments: Presentation, Recognition and Measurement, and Disclosures*

The Board considered and approved a submission on IPSASB ED 37 *Financial Instruments: Presentation*, ED 38 *Financial Instruments: Recognition and Measurement* and ED 39 *Financial Instruments: Disclosures*. The Board's main comments in the submission reflect the decisions made at the June 2009 meeting, except for its modified view that an entity should be able to treat financial guarantee contracts in accordance with a national accounting standard on insurance contracts that contains a liability adequacy test.

## Project Proposal – Disclosures by Private Sector Not-for-Profit Entities

The Board decided to initiate an active project 'Disclosures by Private Sector Not-for-Profit Entities'. Initially, the project will focus on disclosures that Australian Accounting Standards do not currently require of private sector not-for-profit entities that should be required, having regard to the information needs of users of general purpose financial statements. In the first instance, consideration will be given to work being undertaken by the IPSASB and the New Zealand Financial Reporting Standards Board (FRSB) on service performance reporting. The intention is that this aspect of the project has a 12-month development timeframe.

The Board expressed its desire to not increase unduly the disclosure requirements for not-for-profit entities and agreed the project would also consider whether there are any existing disclosure requirements in Australian Accounting Standards for which the information provided to users might not be justified from a cost/benefit perspective.

In addition, the Board noted that its work on this project might lead to it undertaking further work on the presentation of financial statements, such as the statement of comprehensive income.

## GAAP/GFS Harmonisation – Entities within the GGS

The Board considered a draft Progress Report to the FRC on Phase 2 of the AASB's GAAP/GFS Harmonisation project, in light of the Financial Reporting Council's (FRC) broad strategic direction to the AASB relating to financial reporting by entities within the General Government Sector (GGS). The Board

---

***The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.***

confirmed its June 2009 decision that, based on its consideration of responses to ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*, its preference is to not proceed with Phase 2 of the project.

Accordingly, the Progress Report will ask the FRC to reconsider its broad strategic direction in relation to financial reporting by entities within the GGS, on the basis that the AASB has significant reservations about the usefulness of the proposed GFS presentation and classifications at the level of entities within the GGS.

## Policy for Modifying IFRSs for Not-for-Profit Entities

The Board considered the responses received on the draft *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP*, issued for comment jointly with the New Zealand FRSB. Consistent with the decisions of the FRSB, the Board agreed that the draft be revised for comments received that are compatible with the overall approach proposed, and that the more fundamental issues raised by some constituents be considered in the context of discussions about the Board's strategies. A revised draft *Process* document will be considered at the September 2009 meeting.

## Late-emerging IASB issues

The Board noted that the IASB is considering a proposed amendment to IAS 19 *Employee Benefits* in respect of the discount rate applied to long-term employee benefit liabilities. The proposal is to remove reference to the government bond rate and require the use of a rate determined from the yield on corporate bonds. The AASB decided that it would expose any proposals that emerge from the IASB as soon as feasible and that its existing paragraph Aus78.1 in AASB 119 *Employee Benefits*, which requires not-for-profit public sector entities to use a rate determined from the yield on government bonds, may not be affected until a more fundamental review of that requirement is undertaken.

The Board also noted that the IASB is considering a proposed amendment to IAS 32 *Financial Instruments: Presentation* in respect of equity instrument rights issues denominated in a foreign currency. The AASB decided that it would expose any proposals that emerge from the IASB as soon as feasible.

## Emissions Trading

The Board received an education session from Mike Loudon and Peter Gibson from the Australian Government's Department of Finance and Deregulation on accounting for an Emissions Trading Scheme from the issuer's perspective.

## Annual Improvements

The Board noted that the IASB will soon issue an ED in respect of its proposed 2009-10 *Improvements to IFRSs*. The Board agreed to issue an ED as soon as feasible after the IASB has issued its ED.

## Interpretations

The Board reviewed the Interpretation issues in progress and noted that three new topics were discussed by IFRIC at its July 2009 meeting, and that the issue of a debt to equity swap in a restructuring will be discussed at a special IFRIC meeting with a view to issuing a Draft Interpretation.

The Board also discussed the authoritative status of IFRIC and IASB staff papers and *Updates* and noted the nature of the disclaimers in these documents. The Board decided its forthcoming Statement on *Policies and Processes*, should include the Board's policy that AASB staff papers are not authoritative.

The Board considered the main proposals in IASB ED/2009/4 *Prepayments of a Minimum Funding Requirement – Proposed amendments to IFRIC 14*, which were incorporated in AASB ED 182, and decided that its submission to the IASB should support the proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The comment period to the IASB has now closed.

The Board reviewed the IFRIC's tentative and final agenda decisions from its July 2009 meeting and decided not to comment on any of those decisions.

---

**The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.**

## Standard Business Reporting

The Board received a briefing from Paul Madden, Program Director, Standard Business Reporting Initiative, on the purpose and objectives of the Initiative, which involves the flow of information, including financial report information, to government.

## Minutes

The Board approved the minutes of Meeting 99, held on 24-25 June 2009. These are now available on the website.

## Documents Open for Comment

<b>The following documents are open for comment – once finalised, all submissions to the IASB, IFRIC or IPSASB are available on the AASB website.</b>				
<b>Originating Organisation</b>	<b>Topic</b>	<b>AASB No</b>	<b>AASB Due Date</b>	<b>IASB/IFRIC /IPSASB Due Date</b>
IASB	Income Tax	ED 178	Closed	31 Jul 2009
IASB	Financial Instruments - Derecognition	ED 177	Closed	31 Jul 2009
IPSASB	Financial Instruments: Presentation, Recognition and Measurement, and Disclosures (3 EDs)	N/A	N/A	31 Jul 2009
IPSASB	Intangible Assets	N/A	N/A	15 Aug 2009
IPSASB	Entity Combinations from Exchange Transactions	N/A	N/A	15 Aug 2009
IASB	Credit Risk in Liability Measurement	ITC 21	7 Aug 2009	1 Sep 2009
IASB	Impairment of Financial Assets: Expected Cash Flow Approach	N/A	17 Aug 2009	1 Sep 2009
IASB	Financial Instruments: Classification and Measurement	ED 184	17 Aug 2009	14 Sep 2009
IASB	Fair Value Measurement	ED 181	28 Aug 2009	28 Sep 2009
IPSASB	Improvements to IPSASs	N/A	N/A	30 Sep 2009
AASB	Superannuation Plans and Approved Deposit Funds	ED 179	30 Sep 2009	N/A
IASB	Rate-regulated Activities	ED 185	9 Oct 2009	20 Nov 2009
AASB	Income from Non-exchange Transactions	ED 180	30 Nov 2009	N/A
IASB	Management Commentary	ED 183	31 Dec 2009	1 Mar 2010

*The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.*

## Next Meeting on 23-24 September 2009

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

- Differential Reporting
- Financial Instruments
- Policy for Modifying IFRSs for NFPs
- Insurance Contracts
- Interpretations
- Rate-regulated Activities

## 2009 Meeting Dates

Remaining meeting dates for 2009 are:

- 23-24 September
- 28-29 October (joint meeting with NZ FRSB)
- 9-10 December

The above meetings will be held in Melbourne.

---

---

***The AASB Action Alert is issued by the Australian Accounting Standards Board (AASB). It reports on meetings of the AASB as a service to its constituents. Decisions reported are tentative and may be changed or modified by the AASB. Decisions become final only after completion of the formal processes required to issue documents. No responsibility is taken for the results of actions or omissions to act taken on the basis of any information in this report, or for any errors or omissions.***