



Subject: Minutes of the 92nd meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Friday 10 October 2008 from 8:35 a.m. to 3:55 p.m.

All agenda items were discussed in public.

Attendance

Members	David Boymal (Chairman) Glenn Appleyard Sue Highland Mark Jenkin Jan McCahey John O'Grady Colin Parker Kris Peach Joanna Perry Bruce Porter Robert Williams
Apologies	Frank Palmer Brett Rix
In Attendance	Peter Batten (IPSASB Member)
Staff	Clark Anstis (in part) Dean Arden (in part) Ahmad Hamidi (in part) Geoff Harris Rutendo Kaviya (in part) Robert Keys (in part) Jim Paul (in part) Sabine Schühler (in part) Joanna Spencer (in part) Angus Thomson Raymond Yu (in part)

APOLOGIES, AGENDA, MINUTES, MATTERS ARISING FROM MINUTES AND DECLARATION OF INTERESTS

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.

Agenda Item 1

The Board confirmed the minutes of the ninety-first meeting held on 25 September 2008.

CHAIRMAN'S REPORT

Agenda Item 2

The Board had before it a letter from David Boymal, AASB Chairman, dated 29 September 2008, to Don Challen, Chairman, Heads of Treasuries re GAAP/GFS harmonisation (Agenda paper 2.1).

The Chairman informed members that:

- (a) he and Angus Thomson have been invited to give evidence to the Senate Inquiry on Reporting by Charities on 30 October 2008. The Chairman indicated that the Inquiry has received 174 submissions and that a theme in the submissions perceived a need for a Standard dealing specifically with disclosures by charities. Members noted the approach taken in New Zealand including a requirement to present a statement of service performance and noted there is potential for cooperation on the issue in the event that the Board includes a project on its work program; and
- (b) Treasury has made an application to the Department of Finance and Deregulation in respect of the funding of the AASB.

The Board noted that the IASCF Trustees have agreed that the IASB's normal due process can be suspended so that it can deal urgently with proposals to amend IAS 39 *Financial Instruments: Recognition and Measurement* in respect of the requirements relating to the reclassification of financial instruments from measurement at 'fair value through the profit and loss' to the 'held-to-maturity' category to achieve consistency with the US requirements. The Board agreed to monitor these developments with a view to ensuring that, in the event the IASB urgently amends IAS 39, Australian constituents will have available to them all the treatments in IFRSs through a rapid response by the Board. Although noting that it could regrettably involve no due process, the Board agreed that, if necessary, it will hold an out-of-session vote on making an Amending Standard.

Action:

Staff
Board

INTERPRETATIONS

Agenda Item 3

The Board had before it:

- (c) a memorandum from Joanna Spencer, dated 1 October 2008 (Agenda paper 3.1);
- (d) a paper: Interpretations issues in progress (IFRIC and domestic topics) as at 1 October 2008 (Agenda paper 3.2);
- (e) a memorandum from Joanna Spencer and Angus Thomson, dated 3 October 2008 (Agenda paper 3.3); and
- (f) an Interpretations Advisory Panel paper including its recommendations paper on Superannuation Contributions Tax (Agenda paper 3.4).

The Board discussed the recommendations of its Interpretations Advisory Panel as to whether future payments of Australian superannuation contributions tax should be included when an entity measures and recognises a defined benefit liability or a defined benefit asset.

The Board:

- (a) noted that there is diversity in practice and that it should address the issue;
- (b) discussed whether the measurement of a defined benefit liability/asset should be driven by a literal interpretation of the formula as set out in AASB 119 *Employee Benefits*, paragraph 54, or by what the liability/asset is intended to represent (that being a deficit or surplus between a defined benefit obligation and relating plan assets). Members agreed that there are at least two interpretations about measuring a defined benefit liability/asset in relation to the superannuation contributions tax and that the Board should only permit one interpretation based on the ultimate cost to the employer sponsor, which would involve incorporating future superannuation contributions tax on the shortfall/surplus into the cash outflows of a defined benefit obligation;
- (c) also discussed an alternate view to that in (b) above, that the superannuation contributions tax should be included in the return on plan assets as the definition of return on assets includes "taxes payable by the plan itself". Members considered that the superannuation contributions tax is a tax imposed on the member that is paid by the plan as a matter of tax administration and, as such, are not of the same nature as the taxes referred to in the definition of return on plan assets; and
- (d) agreed to proceed to issuing an Interpretation and that a Draft Interpretation be developed for consideration at the November 2008 meeting. The Board agreed that the Draft Interpretation should:
 - (i) indicate that superannuation contributions taxes on future contributions to meet any shortfall/surplus should be accounted for when measuring the defined benefit liability/asset by including them in the cash flows when measuring the defined benefit obligation; and

- (ii) indicate that, because of the agency type arrangement between the employee, employer and the superannuation plan, superannuation contributions tax are not the taxes referred to in the definition of return on plan assets.

Action:

Staff

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Agenda item 4

The Board had before it:

- (a) a memorandum from Dean Ardern dated 2 October 2008 (Agenda Paper 4.1); and
- (b) draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 4.2).

The Board decided to amend draft ED 16X to:

- (a) remove the paragraphs dealing with the measurement and presentation of benefit options; and
- (b) include a question asking constituents whether the ED should stipulate how a benefit option should be measured.

In addition, the Board agreed to give further consideration to the:

- (a) implications of measuring a non-controlling interest in a subsidiary in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*; and
- (b) manner in which the proposals in relation to the preparation and presentation of consolidated financial statements are articulated.

To this end, the Board directed staff to prepare an example set of financial statements for a business combination prepared in accordance with the proposals in the ED for consideration at its November meeting.

The Board also agreed:

- (a) that example financial statements prepared in accordance with the proposals in the ED should be prepared for the Board's consideration at its November meeting; and
- (b) to amend draft ED 16X as described in Attachment A to these minutes.

The Board agreed to continue its deliberations on draft ED 16X at its November meeting.

Action:

Staff

MODIFYING IFRSs FOR NOT-FOR-PROFIT ENTITIES

Agenda item 5

The Board had before it:

- (a) a memorandum from Angus Thomson dated 6 October 2008 (Agenda paper 5.1);
- (b) an FRSB paper: Modifying IFRSs for Public Benefit Entities (Agenda paper 5.2); and
- (c) an FRSB paper: Borrowing Costs (Agenda paper 5.3).

Ms Perry provided the Board with an update on the status of discussions by the FRSB (NZ) on identifying criteria/factors to be considered when determining whether the requirements in IFRSs should be modified for application by not-for-profit entities. The Board was advised that the ASRB (NZ) would review the draft guidelines at its next meeting and noted the importance of maintaining close liaison with the FRSB on this project given the aim of having the same policy in Australia and New Zealand.

Action:

Staff

CONCEPTUAL FRAMEWORK – OBJECTIVE AND QUALITATIVE CHARACTERISTICS

Agenda item 6

The Board had before it:

- (a) a memorandum from Jim Paul and Rutendo Kaviya dated 2 October 2008 (Agenda Paper 6.1);
- (b) a draft AASB submission to the IASB on its Conceptual Framework Exposure Draft (ED) *The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* (Agenda Paper 6.2);
- (c) a copy of comment letters received on AASB ED 164 (of the same title) [Agenda Paper 6.3];
- (d) a summary of the main points in the comment letters on ED 164 (Agenda Paper 6.4);
- (e) a detailed collation of the comments received on ED 164 (Agenda Paper 6.5); and
- (f) a copy of the AASB's submission to the IASB on its Discussion Paper on the same topics (November 2006) annotated for the outcome of the Board's comments in the IASB ED and for the AASB staff's suggestions (Agenda Paper 6.6).

The AASB considered the comment letters received on ED 164, and approved a submission that generally supports the IASB ED while making the following main suggestions for amendment:

- (a) further explanation should be provided for adopting an entity perspective in financial reports (the AASB supports that perspective);
- (b) the objective of financial reporting should include reference to providing information for *evaluating* decisions;

- (c) the qualitative characteristics should not be classified into 'fundamental' and 'enhancing' categories, unless more convincing reasons are provided for that classification scheme; and
- (d) the concepts of relevance and materiality should be distinguished more clearly.

In respect of not-for-profit entities, the Board decided that its submission should:

- (a) note that if the IASB and FASB retain their plan to deal with not-for-profit entity issues in a later phase of their Conceptual Framework project, the AASB will need to consider deferring the applicability of new/revised concepts to not-for-profit entities until that later phase is completed;
- (b) recommend that the IASB and FASB reconsider that plan, particularly in view of the IPSASB having issued a Consultation Paper comprising the first group of draft chapters of its Conceptual Framework, and to work together with the IPSASB in considering not-for-profit entity issues; and
- (c) note the amendments it would consider necessary for those entities when the IASB and FASB consider them.

The Board also decided its submission should recommend not to issue any parts of the revised IASB Framework until all parts are complete.

The Board decided not to propose that the ED's description of general purpose financial reporting should exclude its reference to dependent users, or to request other modifications of that description.

Action: Staff

CONCEPTUAL FRAMEWORK – REPORTING ENTITY

Agenda item 7

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 3 October 2008 (Agenda paper 7.1);
- (b) a draft AASB Submission on IASB-FASB Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity – Clean copy (Agenda paper 7.2); and
- (c) draft AASB Submission on IASB-FASB Discussion Paper– marked up from September 2008 draft (Agenda paper 7.3);

The Board considered a draft submission on the IASB-FASB Discussion Paper amended for the views expressed by the Board at its September meeting. The Board agreed its submission should comment that:

- (a) despite its agreement with including a broad description of a reporting entity in the revised Framework, the Board prefers a description of a reporting entity that creates an explicit link with the objective of financial reporting and users of general purpose financial reports;

- (b) there are entities in the for-profit sector that need to report, but which are not structured as legal entities, and that the submission should cite relevant examples;
- (c) the Board strongly supports the group reporting entity perspective in preparing consolidated financial statements, and arguments in favour of this perspective should be strengthened;
- (d) the term 'business activity' in the description of a reporting entity should be clarified in the revised IASB Framework;
- (e) the risks and rewards analysis may be useful at the standards level to assist in understanding the 'facts and circumstances' surrounding the existence of control;
- (f) although the controlling entity model can coexist with the proposed reporting entity description, the proposed description may reduce the need for a common control model as a distinct model since any combination of entities can be regarded as a 'circumscribed area of business activity' and therefore a reporting entity. Further, describing the reporting entity in a broad manner may reduce the need for a discussion of both the controlling entity model and common control model at the concepts level, making them issues for consideration at a standards level; and
- (g) the issue of control where there is less than majority interest either in capital or voting rights needs clarification while also noting that it is a standards level issue.

The Board also agreed that the following items should be omitted from the submission;

- (a) the section headed 'Primary Comments about Proposals' in the covering letter;
- (b) subparagraphs 4(a), (b), (c) and (e);
- (c) the last sentence in paragraph 10; and
- (d) paragraphs 13, 14 and 15.

Action:

Staff

DISCONTINUED OPERATIONS: PROPOSED AMENDMENTS TO IFRS 5 AND FIRST-TIME ADOPTION OF IFRSs

Agenda item 8

Discontinued Operations

The Board had before it:

- (a) a memorandum from Raymond Yu dated 26 September 2008 (Agenda paper 8.1);
- (b) AASB Preface to the IASB Exposure Draft *Discontinued Operations: Proposed Amendments to IFRS 5* (Agenda paper 8.2); and
- (c) IASB Exposure Draft *Discontinued Operations: Proposed Amendments to IFRS 5* (Agenda paper 8.3).

The Board considered the draft Australian Preface to the IASB Exposure Draft and decided to include a question of whether there are any concerns particularly in relation to not-for-profit entities about applying the notion of operating segments in the context of discontinued operations to entities not required to apply AASB 8 *Operating Segments*.

The Board approved issuing an Australian Exposure Draft.

Action: Staff

Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1

The Board had before it:

- (a) a memorandum from Raymond Yu dated 1 October 2008 (Agenda paper 8.4);
- (b) AASB Preface to the IASB Exposure Draft *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1* (Agenda paper 8.5); and
- (c) IASB Exposure Draft *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1* (Agenda paper 8.6).

The Board requested that staff consider whether the proposed changes are likely to affect of entities engaged in extractive activities.

The Board approved issuing an Australian Exposure Draft.

Action: Staff

PROCESS FOR ADOPTING IFRSs

Agenda item 9

The Board had before it:

- (a) a memorandum from Clark Anstis and Angus Thomson dated 29 September 2008 (Agenda paper 9.1);
- (b) Issues paper: Adoption of IFRSs in Australian legislation (Agenda paper 9.2); and
- (c) an example of an Amending Standard prepared on the basis of a potential approach (Agenda paper 9.3 – Tabled).

The Board received a briefing on discussions with the Office of Legislative Drafting & Publishing (OLDP) of the Attorney-General's Department regarding the legal process for adopting IFRSs in Australia and decided that staff should continue discussions with the OLDP to proceed with establishing a more efficient approach while ensuring that the Standards are properly constituted.

APPRECIATION

Members wished the Chairman, David Boymal, who retires from the Board on 4 November 2008, a long and happy retirement. Members expressed their appreciation for his contributions to the work of the Board as Chairman and for his contributions to standard setting, both domestically and international, over several decades.

CLOSE OF MEETING

The Chairman closed the meeting at 3:55 p.m. on Friday, 10 October 2008.

APPROVAL

Signed for the Acting Chairman as a correct record
this twelfth day of November 2008.

ATTACHMENT A

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Agenda item 4

The Board considered draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda Paper 4.2) and decided to:

- (a) delete the word 'including' and sub-paragraphs (i) and (ii) in paragraph 2(a);
- (b) amend paragraph 2(b) by inserting the phrase 'the amount of, and the entity's capacity to,' after the word 'affect' and delete the words 'its capacity to';
- (c) replace the word 'or' with 'and' in the phrase 'principles or requirements' each time it appears in the ED;
- (d) delete the words 'or discount attributable to carrying amounts' in paragraph 9(c);
- (e) amend paragraph 10 by inserting a sub-paragraph (e) which reads 'discount of subsidiaries measured in accordance with paragraph 35 of this Standard';
- (f) replace the term 'costs to sell' with the term 'transaction costs' each time it appears in the ED;
- (g) amend the status of the heading 'Tax Balances' after paragraph 10 to be consistent with the status of the heading 'Measurement' which appears after paragraph 8;
- (h) replace the heading 'Members' Accrued Benefits' which follows paragraph 11 with the heading 'Defined Contribution Members';
- (i) amend paragraph 13 to ensure that it is consistent with the definition of accrued benefits in Appendix A and clarifies that defined contribution members' accrued benefits are to be measured at the amount of members' vested benefits plus any additional amounts that will vest in members in the future;
- (j) amend paragraph 14 and elsewhere by replacing the phrase 'on the basis of' with the word 'at';
- (k) relocate the heading 'Defined Benefit Members' to follow paragraph 13;
- (l) delete the words 'the discount rate and' from paragraph 16;
- (m) relocate the features of paragraph 10 of the Application Guidance to follow paragraph 19 in the body of the Standard;

- (n) delete all references to 'benefit options' in the body of the Standard and in the Application Guidance. In addition, the Board decided to:
 - (i) amend paragraphs BC49 – BC52 to explain the Board's reasons for not requiring a superannuation plan to separately account for a benefit option; and
 - (ii) include a question asking constituents whether the Standard should explicitly require a superannuation plan to account for a benefit option separately from member's accrued benefits and how the benefit option should be measured;
- (o) relocate the features of paragraph BC76 in the Basis for Conclusions to follow paragraph 24 in order to provide a context and rationale for requiring a superannuation plan or approved deposit fund to prepare a statement of changes in members' accrued benefits;
- (p) amend paragraph 27 to clarify that a residual interest in a superannuation plan or approved deposit fund arises when the amount of the plan's or fund's total assets exceeds the amount of its total liabilities, including members' accrued benefits and any obligations to employer sponsors;
- (q) relocate paragraphs 27 – 29 to the Application Guidance;
- (r) amend the Basis for Conclusions to clarify that a superannuation plan or approved deposit fund would not present a residual interest in its net assets as equity simply because there is uncertainty as to whether the residual interest would be payable to members or an employer sponsor;
- (s) replace the words 'treated' and 'recognised' with the word 'presented' in paragraph 30(a);
- (t) replace the phrase 'profit or loss' with 'income statement' in paragraph 30(a);
- (u) amend paragraph 30(b) to be consistent with the wording used in paragraph 21 of AASB 112 *Income Taxes* to the extent feasible; and
- (v) insert the words 'settlement or extinguishment of' after the word 'or' in the definition of costs to sell in Appendix A.