

FRSB Alert

By **Clive Brodie**, Senior Project Manager – Accounting Standards (*Summary as at 25 March 2010*)

The Financial Reporting Standards Board (FRSB) held a joint meeting with the Australian Accounting Standards Board (AASB) (the Boards) on 17 and 18 March in Auckland and held a separate meeting following the first day of the joint meeting. The main issues discussed are summarised below.

Joint Work Program

The Boards considered their joint working arrangements and decided to continue to progress their joint projects (through joint staff project teams, and joint subcommittees where appropriate) and share ideas (between both staffs and the Boards) on other projects of common interest.

Long-term Fiscal Sustainability of Public Finances

The Boards considered an analysis of IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*. They decided to indicate in their submissions to the IPSASB that they agree with the IPSASB's preliminary views that:

- (a) the presentation of information on the long-term sustainability of public finances is necessary to meet the objective(s) of financial reporting by national governments and some other governments;
- (b) such information should be presented in additional statements to financial statements or in narrative reporting; and
- (c) such information should include key assumptions underpinning projections made, and the results of key sensitivity analyses.

The Boards will consider comments subsequently received on the IPSASB Paper before finalising their submissions.

Financial Instruments

The Boards received an update on the IASB's Financial Instruments projects, in particular:

- Financial Instruments with the Characteristics of Equity;
- Classification and Measurement of Financial Liabilities; and
- Hedging.

The Boards expressed the view that, based on the IASB and FASB decisions so far on these projects, there is the potential that the projects will not reduce the complexity. Staff will continue to monitor the IASB's progress.

Income from Non-exchange Transactions

The Boards commenced their review of the submissions on AASB ED 180/FRSB ED 118 Income from Non-exchange Transactions (Taxes and Transfers), focusing particularly on comments received on the timing of income recognition by recipients. The Boards tentatively decided to explore departing from the ED's proposal that a liability (other than an advance receipt) arises from a non-exchange transaction when and only when the transfer gives rise to a performance obligation (which may be a return obligation). The Boards decided to explore an approach in which:

- (a) an enforceable performance obligation is of itself sufficient for a liability to exist, and any related return obligation should be treated as an indicator of the enforceability of the performance obligation;

(b) the principles for identifying an enforceable performance obligation are based on those being developed by the IASB and FASB in their joint project on Revenue Recognition; and

(c) when a transferor in a non-exchange transaction imposes an enforceable performance obligation on the transferee, the transferor is regarded as the 'customer'.

The Boards will continue considering the submissions received on their ED at future meetings.

Australian and New Zealand Convergence

The Boards decided to propose the removal, relocation or alignment of a number of disclosure requirements in each of their sets of standards, with a view to ensuring that a for-profit entity applying either set of standards could be in compliance with the requirements of the other jurisdiction. An exposure draft is expected to be issued in May 2010 with a three-month comment period.

This convergence project is consistent with outcome proposals agreed by the Australian and New Zealand Prime Ministers in 2009.

Control in the Public Sector

The Boards considered a draft joint project plan on 'Defining the Reporting Entity in the Public Sector (including consideration of the concept of control)', which is the joint project they added to their respective work programs in December 2009. The Boards decided that, given the relationship of the project to the conceptual framework, the plan should contemplate the project being progressed with significant direct involvement from the Boards, supplemented by a joint subcommittee assisting staff. Furthermore, the plan should contemplate the possibility of Phase 3+ of the project considering issues, where relevant, from a private sector not-for-profit perspective. In relation to Phase 1 of the project, the target is for a first draft of a Discussion Paper (on current issues arising from the application of the definition of control, and the extent of those issues, in practice) to be available in April 2010.

Liabilities

The Boards considered an analysis of IASB ED/2010/1 Measurement of Liabilities in IAS 37 and decided to include the following views in their submissions to the IASB:

(a) ideally, one measurement principle should be established for all classes of liabilities (such as provisions and liabilities in contracts with customers);

(b) until the objective in (a) is accomplished, the Boards support the IASB's proposal that liabilities presently within the scope of IAS 37 should be measured at the lowest of:

(i) the present value of the resources required to fulfil the obligation;

(ii) the amount that the entity would have to pay to cancel the obligation; or

(iii) the amount that the entity would have to pay to transfer the obligation to a third party;

and

(c) the present value of the resources required to fulfil the obligation should be an entity-specific measure. Therefore, the Boards disagree with the proposed guidance that these present values should incorporate various features of a fair value measurement, such as guidance that the present value estimates should be consistent with observable market prices.

The Boards will consider comments subsequently received on the ED before finalising their submissions.

IPSASB Service Concession Arrangements

The Boards noted that the IPSASB recently issued Exposure Draft ED 43 *Service Concession Arrangements: Grantor*, with submissions due to the IPSASB by 30 June 2010. The Boards agreed that the ED should be issued in Australia and New Zealand. The AASB decided to issue an Exposure Draft containing ED 43 as soon as possible and to request comments from constituents for consideration prior to finalising its submission to the IPSASB. The FRSB decided to follow normal due process with respect to IPSASB documents and place it on its website for comment.

Planning Day

The Boards conducted a planning meeting and discussed issues affecting the future work of the Boards. These included the challenges facing standard setting in Australia and New Zealand, setting the agenda for the public and not-for-profit sectors, the relationship with the IPSASB and the use of IPSASs, differential reporting, conceptual frameworks (IASB/FASB and IPSASB), and the Boards' relationship with the National Standard Setters Group and the Asian Oceanian Standard Setters Group.

The Boards noted that there are a number of uncertainties that will affect future planning, in particular the current review of the structure of standard setting in New Zealand.

Based on these discussions a report will be prepared for both Chairs that will be used as the basis for planning the Boards' goals and processes.

The Boards confirmed their strong desire to continue to work together.

FRSB only Meeting

Insurance: Draft Solvency Standard

The FRSB considered and approved its submission to the Reserve Bank of New Zealand on the proposed *Solvency Standard for Non-life Insurance (Consultation Version 2)*.

Submissions to the ASRB

The FRSB approved for submission to the ASRB the proposed Amendment to NZ IFRS 3 *Business Combinations–Scope Exemption* which provides a scope exemption in respect of a local authority reorganisation.

Next meeting

The next meeting of the FRSB will be held in Wellington on 3 May 2010.

Constituents who wish to receive the FRSB Alert and/or releases of exposure drafts electronically should contact the Institute on ASD@nzica.com

Please note that the information above is provided for guidance only. Decisions reported are tentative and may be revised or modified at future FRSB meetings. Information on previous Board meetings can be found on the Financial Reporting Standards section of the Institute's Web site at http://www.nzica.com/AM/Template.cfm?Section=Previous_FRSB_Alerts