



**Subject:** Minutes of the 115<sup>th</sup> meeting of the AASB, held in part jointly with the NZ FRSB

**Venue:** Ken Spencer Room, AASB offices  
Level 7, 600 Bourke St, Melbourne

**Time(s):** Wednesday 16 March 2011 from 9.00 a.m. to 5.30 p.m.  
(Joint meeting with NZ FRSB from 9.00 a.m. to 12.30 p.m.)  
Thursday 17 March 2011 from 9.00 a.m. to 12:50 p.m.

All agenda items except items J1, J2,1 and 11 were discussed in public.

## Attendance

### Members

#### AASB

Kevin Stevenson (Chairman)  
Ian McPhee (Deputy Chair)  
Kris Peach (Deputy Chair)  
Glenn Appleyard  
Victor Clarke  
Anna Crawford  
Jayne Godfrey  
Sue Highland  
Mark Jenkin (absent from 10:30am, day 2)  
John O'Grady  
Joanna Perry (via video/audio conference)  
Brett Rix (day 1)  
Roger Sexton  
Robert Williams

#### FRSB (via video conference)

Joanna Perry (Chairman)  
Denise Hodgkins (Deputy Chairman)  
Kimberley Crook  
Karl Hickey  
Brent Manning  
Angela Ryan  
Kate Thomson  
Steve Todd  
Norman Wong (after 11am (Aus)  
1.00pm (NZ))

### Apologies

Brett Rix (day 2)

Dave Foster  
Ken Warren (IPSASB observer)  
Norman Wong (until 11am (Aus)  
1.00pm (NZ))

### In Attendance

#### Staff

Peter Batten  
Ahmad Hamidi Ravari (in part)  
Robert Keys  
Christina Ng (in part)  
Lisa Panetta  
Jim Paul (in part)  
Huy Pham (in part)  
Angus Thomson

Sarah Bate  
Patricia McBride  
Joanne Scott  
Vanessa Sealy-Fisher

## **Joint Meeting with New Zealand Financial Reporting Standards Board (FRSB)**

### **Welcome, Apologies and Declaration of Interests**

Agenda Item J1

#### **Welcome**

The NZ Chair welcomed participants. The new AASB members (Anna Crawford, Jayne Godfrey and Roger Sexton) introduced themselves. The Boards noted that this will be the last joint AASB/FRSB meeting because the FRSB will be superseded from 1 July 2011.

#### **Declarations of Interest**

In the normal course of their day-to-day professional responsibilities, members 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(s).

#### **NZ Standard Setting Arrangements**

Agenda Item J2

The Boards noted that standard setting in New Zealand is to be restructured with effect from 1 July 2011. At that date the existing New Zealand Accounting Standards Review Board (ASRB) is expected to be reconstituted as the External Reporting Board (XRB), together with two sub-Boards: the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The Boards noted ASRB *Communiqué 2011/2 - March 2011* (tabled), which includes announcements:

- (a) of the appointment of Michele Embling (currently ASRB Deputy Chair, and Managing Partner of the Auckland office of PricewaterhouseCoopers) as the inaugural Chair of the NZASB; and
- (b) that the ASRB has concluded that the new accounting standards framework should consist of two sets of accounting standards: one to be applied by entities with a for-profit objective and the other to be applied by public benefit entities (PBEs). The ASRB is preparing a Position Paper and two Consultation Papers on its multi-standards approach.

For profit-oriented entities, the framework applying from July 2013 (with early adoption allowed) is expected to be very similar to that applying in Australia, with Tier 1 entities applying full IFRS recognition, measurement and disclosure requirements and Tier 2 entities adopting a regime similar to the Australian approach of IFRS recognition and measurement with Reduced Disclosure Requirements (RDR). The rebuttable presumption in developing reporting framework Exposure Drafts will be that Australian RDR disclosure exemptions are appropriate for New Zealand.

The Boards expressed appreciation for their success and achievements in working together. They concluded that financial reporting requirements for Tier 1 for-profit entities are sufficiently comparable for the Boards to consider recommending “mutual recognition” to their respective regulators.

For PBEs, the existing framework is expected to continue in the interim. The FRSB does not therefore intend to consider PBE issues for IFRSs expected to be approved in the immediate future.

The Boards noted that the changes imminent in NZ are likely to affect the manner in which the Boards and their staff work together; noting that the implications will need to be studied. Until the framework in NZ is clarified, it is likely that the FRSB will adopt a watching brief on the current joint projects.

## **Fair Value Measurement – Update and Consideration of Borrowing Costs**

Agenda Item J4

The Boards had before them:

- (a) a memorandum from Joanne Scott and Raymond Yu dated 2 March 2011 (*agenda paper J4.1*);
- (b) a staff paper on Borrowing Costs and Depreciated Replacement Cost in Fair Value Measurements (*agenda paper J4.2*);
- (c) a staff paper on International Valuation Standards Council (IVSC) ED Technical Information Paper 2 *Depreciated Replacement Cost* (*agenda paper J4.3*);
- (d) a copy of IVSC ED Technical Information Paper 2 *Depreciated Replacement Cost* (*agenda paper J4.4*); and
- (e) a confidential copy of IASB pre-ballot draft of IFRS 13 *Fair Value Measurement* (*agenda paper J4.5*).

Having regard to recent developments in the New Zealand standard setting environment, the FRSB had previously decided:

- (a) to adopt the forthcoming IFRS on Fair Value Measurement (IFRS 13, which the IASB plans to issue in April 2011) solely for application by profit-oriented entities; and
- (b) retain the PBE-specific guidance on the application of depreciated replacement cost in NZ IAS 16 *Property, Plant and Equipment* (including the relationship with NZ IAS 23 *Borrowing Costs*).

In relation to the forthcoming IFRS 13, the AASB considered the treatment of borrowing costs by not-for-profit (NFP) public sector entities when using depreciated replacement cost (DRC) to measure the fair value of property, plant and equipment subsequent to initial recognition. Under AASB 123 *Borrowing Costs*, NFP public sector entities may elect to recognise borrowing costs as an immediate expense instead of applying the capitalisation requirements in respect of qualifying assets that apply to other entities. The AASB considered and rejected an argument that a NFP public sector entity that makes such an election should, for

'consistency', be required to exclude borrowing costs from DRC estimates of the fair value of property, plant and equipment measured under the revaluation model in AASB 116 *Property, Plant and Equipment*.

The AASB decided to reactivate its project on the application of AASB 123 by NFP public sector entities, and analyse the above-mentioned election against its *Process for Modifying IFRSs for PBE/NFP*.

In addition, the Boards noted the views expressed by some AASB members that:

- (a) a profit margin should be added to DRC when DRC is used to estimate an asset's fair value; and
- (b) because DRC will be identified as a measure of fair value in the forthcoming IFRS 13, the depiction of DRC as a measure of the 'value in use' of some assets of NFP entities in paragraph Aus6.1 of AASB 136 *Impairment of Assets* should be reviewed promptly.

Also in relation to the forthcoming IFRS 13, the AASB decided to issue Tier 2 disclosure requirements on a contemporaneous basis to the Australian Accounting Standard incorporating IFRS 13.

Action: AASB staff  
RDR Sub-committee

## **IVSC ED Proposed Technical Information Paper 2 "Depreciated Replacement Cost"**

The Boards decided to work jointly in developing their separate submissions to the IVSC on its ED *Proposed Technical Information Paper 2 "Depreciated Replacement Cost"*, on which the IVSC requests comments by 31 May 2011. The focus of the submissions will be on whether the IVSC ED is consistent with the forthcoming IFRS on Fair Value Measurement regarding the determination of DRC as an estimate of fair value.

Action: AASB and NZICA staff

## **IPSASB Conceptual Framework: Phase 1**

Agenda Item J9

The Boards had before them:

- (a) a memorandum from Jim Paul dated 3 March 2011 (*agenda paper J9.1*);
- (b) IPSASB Conceptual Framework Exposure Draft 1 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (*agenda paper J9.2*);
- (c) IPSASB Conceptual Framework—Staff Draft Paper *Key Characteristics of the Public Sector* (*agenda paper J9.3*); and
- (d) a slide presentation *IPSASB Conceptual Framework, Phase 1 ED, AASB-FRSB Meeting 16 March 2011* (*agenda paper J9.4*, tabled).

The Boards agreed to recommend to the IPSASB that its Conceptual Framework should:

- (a) state the criteria it plans to use in assessing how the scope of financial reporting should evolve in response to users' information needs – in particular, in determining which useful information belongs within the scope of financial reporting and which useful information falls outside the scope of financial reporting;
- (b) identify a single objective of financial reporting, namely, to provide information useful for decision making by users of financial reports (consistent with the IASB's revised Conceptual Framework). This would help with identifying the financial information needs of users that GPFs should strive to meet and that Standards should be developed to require. The IPSASB Framework should also indicate that:
  - (i) discharging accountability is a key role of GPFs of public sector entities, which is achieved by providing financial information useful for decision making purposes. Therefore, accountability should not be identified as a separate objective, but its relationship with providing information for decision making should be made more explicit. Identifying accountability as a separate objective of financial reporting could inadvertently broaden the scope of financial reporting, for example, to include social responsibility reporting; and
  - (ii) to provide confirmatory value to users, GPFs should provide information useful for evaluating past decisions. Even if a user of a financial report takes no action as a result of evaluating past decisions, this reflects the user's decision not to act;
- (c) not identify primary users of GPFs. If it does, 'primary users' should include (among others) all parties performing a review or oversight function on behalf of other users;
- (d) explain its reference to providing information about phenomena other than 'economic phenomena' (the IASB's revised Conceptual Framework refers only to 'economic phenomena'). Referring to other phenomena implicitly expands the scope of financial reporting – such matters should be dealt with explicitly in the 'scope of financial reporting' component of the Conceptual Framework;
- (e) treat materiality as an entity-specific aspect of relevance (consistent with the IASB's revised Conceptual Framework), rather than as a constraint on reporting useful information; and
- (f) be consistent with the revised IASB Conceptual Framework's distinction between 'fundamental' and 'enhancing' qualitative characteristics, because there is not an apparent public sector specific reason to differ, even though the Boards disagree in principle with the distinction.

The Boards also agreed to:

- (a) ask the IPSASB to explain why the distinction between exchange transactions and non-exchange transactions is treated as a Conceptual Framework issue, noting that in the Boards' view it is a standards level issue; and
- (b) urge that the IPSASB addresses, as a matter of priority, the status of its Conceptual Framework in the hierarchy within *IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors of*

authoritative guidance for issues not specifically addressed by International Public Sector Accounting Standards.

At their respective next meetings, the Boards will consider a paper setting out draft views on key issues for inclusion in their submissions to the IPSASB.

Action: AASB and NZICA staff

## IPSASB Conceptual Framework: Phase 2

### Agenda Item J10

The Boards had before them:

- (a) a memorandum from Joanne Scott dated 1 March 2011 (*agenda paper J10.1*);
- (b) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (*agenda paper J10.2*);
- (c) IPSASB Consultation Paper *Summary: Phase 2 of 4—Elements and Recognition in Financial Statements* (*agenda paper J10.3*); and
- (d) Staff Paper on IPSASB Conceptual Framework Consultation Paper (CP): *Phase 2 – Elements and Recognition* (*agenda paper J10.4*).

In regard to the IPSASB Consultation Paper on Elements and Recognition the Boards received a verbal update from staff on the discussion of the 'asset and liability-led approach' and the 'revenue and expense-led approach' [see (a) below] at the IPSASB meeting held on 7 – 10 March 2011. Staff advised that the principles underpinning the 'revenue and expense-led approach' have yet to be comprehensively and clearly articulated.

The Boards agreed to recommend to the IPSASB that this component of its Framework should:

- (a) adopt an 'asset and liability-led approach' rather than a 'revenue and expense-led approach' in identifying the elements of financial statements. (Under a 'revenue and expense-led approach', revenues and expenses are defined on the basis of their applicability to the current period, consequently leading to identifying 'deferred inflows' and 'deferred outflows' as elements of the statement of financial position, in addition to assets and liabilities.) The reasons given for supporting an 'asset and liability-led approach' should be consistent with the staff comments made in the Boards' respective December 2010 agenda papers on the CP, quoted in paragraph 18 of Agenda Paper J10.4 for this joint meeting [*see also the paragraph below regarding Board member action*];
- (b) reflect an approach to associating an asset with a specific entity that is based on control and/or access to rights. The Boards noted that rights to access a resource may in themselves be assets. They

considered that, although an enforceable claim is not an essential characteristic for linking an asset with an entity, it could be a useful indicator of such a link;

- (c) define assets and liabilities generically, i.e., without limiting them to items that would be recognised in financial statements. Accordingly, a government's rights/powers to tax and levy fees should be identified as assets, although recognisable assets might not arise until an event (such as the exercise of the rights/powers) occurs;
- (d) identify unconditional obligations and the entity not having a realistic ability to withdraw from the obligation as features of liabilities. Examples of liabilities (not mutually exclusive) are obligations to transfer benefits, unconditional stand-ready obligations, performance obligations and obligations to provide access to a resource. Obligations to forgo future resources should not be identified as examples of liabilities. Obligations to make an outflow of value only give rise to liabilities when that outflow of value is also an outflow of resources; and
- (e) propose symmetrical definitions of assets and liabilities, or at least explain any asymmetry.

In relation to (a), Board members agreed to provide to project staff out of session any additional arguments or other comments on the 'asset and liability-led approach' and the 'revenue and expense-led approach'.

The Boards did not make a tentative decision on whether equity/net assets should be defined as a residual amount, residual interest or ownership interest. An AASB member suggested that staff should articulate, for the Boards' future consideration, reasons for rejecting a notion of equity/net assets that is limited to a 'residual amount'.

At their respective next meetings, the Boards will consider a paper setting out draft views on key issues for inclusion in their submissions to the IPSASB.

Action:

AASB and NZICA staff  
Board members

## IPSASB Conceptual Framework: Phase 3

### Agenda Item J11

The Boards had before them:

- (a) a memorandum from Jim Paul dated 3 March 2011 (*agenda paper J11.1*);
- (b) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (*agenda paper J11.2*);
- (c) IPSASB Consultation Paper *Summary: Phase 3 of 4—Measurement of Assets and Liabilities in Financial Statements* (*agenda paper J11.3*); and
- (d) a slide presentation *IPSASB Conceptual Framework, Measurement, AASB-FRSB Meeting 16 March 2011* (*agenda paper J11.4*, tabled).

In regard to the IPSASB Consultation Paper on Measurement of Assets and Liabilities the Boards agreed to recommend to the IPSASB that its ED on this component of its Framework should:

- (a) attempt to identify an ideal measurement basis or model, regardless of whether it also includes conceptual guidance to help the IPSASB develop an improved mixed measurement model at a standards level;
- (b) evaluate various concepts of capital as the starting point for choosing between different measurement bases;
- (c) add fair value to the measurement bases evaluated, or at least explain why fair value is not addressed; and
- (d) give greater acknowledgement of the differences between market entry prices and market exit prices.

The Boards also agreed that, at this stage, it would be premature for them to propose a particular preferred measurement model in their submissions to the IPSASB.

At their respective next meetings, the Boards will consider papers setting out draft views on key issues for inclusion in their submissions to the IPSASB.

Action: AASB and NZICA staff

## Revenue from Contracts with Customers

### Agenda Item J3

The Boards had before them:

- (a) a memorandum from Jim Paul and Joanne Scott dated 3 March 2011 (*agenda paper J3.1*);
- (b) an extract from *IASB Update – February 2011* (for noting) (*agenda paper J3.2*);
- (c) a staff strategy paper *IFRS on Revenue from Contracts with Customers – PBE/NFP Issues* (*agenda paper J3.3*);
- (d) a staff paper *Revenue from Contracts with Customers: FRSB Update* (*agenda paper J3.4*);
- (e) an extract from *Draft Minutes of AASB meeting held on 9 – 10 February 2011* (*agenda paper J3.5*); and
- (f) a staff paper *IFRS on Revenue from Contracts with Customers – PBE/NFP issue regarding Onerous Contracts* (*agenda paper J3.6*).

The AASB had previously decided, in February 2011, that the focus of the project on Income from Non-Exchange Transactions should be revenue recognition by NFPs, with the project's scope not being limited to non-exchange transactions. Work on developing that revenue recognition model would be based on the IASB's work in developing an IFRS on Revenue from Contracts with Customers, but modifying the draft IFRS where necessary to address NFP-specific issues.

At this meeting, the Boards noted the tentative decisions recently made by the IASB and FASB in their joint project to develop a Standard on Revenue from Contracts with Customers (as set out in agenda paper J3.2).

The AASB also considered issues papers (agenda papers J3.3 – J3.6) regarding the applicability of the Australian Accounting Standard that will incorporate the forthcoming IFRS on Revenue from Contracts with Customers, and whether that Standard, when first issued, should include any NFP-specific modifications.

The Boards decided that their respective domestic Standards incorporating the IFRS on Revenue from Contracts with Customers should initially apply to, and be permitted to be adopted early by, only for-profit entities (Australia) and profit-oriented entities (New Zealand). In this regard:

- (a) the AASB decided that, when the Australian Accounting Standard incorporating that IFRS is first issued, Australian NFPs should continue, for the time being, to apply the existing Australian Accounting Standards dealing with revenue and other income, namely:
  - (i) AASB 118 *Revenue*, in respect of revenue from exchange transactions; and
  - (ii) AASB 1004 *Contributions*, in respect of revenue or other income from non-exchange transactions; and
- (b) the FRSB decided that New Zealand PBEs should continue, for the time being, to apply NZ IAS 18 *Revenue*, in respect of revenue from exchange transactions and continue to apply the existing hierarchy in developing accounting policies in respect of other revenue.

The AASB decided to continue to develop a revenue recognition model for NFPs based on the IFRS on Revenue from Contracts with Customers, but modified where necessary to address NFP-specific issues.

Action: AASB and NZICA staff

## **AASB-Only Meeting**

### **Apologies, Agenda, Declarations of Interests, Chairman's Report, Minutes, Matters arising from Minutes, Out-of-Session Approvals**

#### **Apologies**

The apologies were noted.

#### **Agenda**

The remaining items on the joint agenda (items J5, J6 and J7) were incorporated into the AASB-only agenda.

## 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.

Glenn Appleyard advised that he had been appointed to the Not-for-Profit Sector (NFP) Reform Council established by the Commonwealth government. He does not foresee any general conflict of interest between this role and his AASB membership, but will advise the Board if he becomes aware of any specific conflict of interest.

## Chairman's Report

Agenda Item 2

The Chair welcomed recently appointed member Jayne Godfrey to her first meeting. He also advised that there had been changes to the membership of the Financial Reporting Council, including the appointment of Grant Hehir as a public sector representative.

## Minutes

The Board considered the draft minutes of meeting 114 (*agenda paper 1.1*), held on 9-10 February 2011, and approved them subject to an amendment to clarify the decisions made in regard to related party disclosures in the not-for-profit public sector (agenda item 4). There were no matters arising.

## Out-of-Session Approvals

The Board noted that, since the February 2011 meeting, it had approved the following Standards and Exposure Drafts:

<b>Date Approved</b>	<b>Topic</b>	<b>Date ED Submissions Due</b>
10 February 2011	ED 209 <i>Offsetting Financial Assets and Financial Liabilities</i>	11 April 2011
10 February 2011	ED 210 <i>Financial Instruments: Impairment</i>	16 March 2011
3 March 2011	Tier 2 Supplement to ED 208 <i>Hedge Accounting</i>	2 June 2011
7 March 2011	ED 211 <i>Proposed Amendments to AASB 1049 (on Whole of Government and General Government Sector Financial Reporting):</i>	
	<ul style="list-style-type: none"><li>• Relief from applying latest version of ABS Manual and clarification as to which version is applied</li><li>• Remaining proposals</li></ul>	<p>6 April 2011</p> <p>6 June 2011</p>

## Control in the NFP[PBE] Sector

Agenda Item J5

The Board had before it:

- (a) a memorandum from the project team dated 1 March 2011 (*agenda paper J5.1*); and
- (b) a revised project plan (*agenda paper J5.2*).

Staff provided progress reports on the following matters:

- (a) developments in the IASB's projects on consolidation and joint arrangements — the Board noted In particular that:
  - (i) all five standards (being IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) are expected to require an effective date of 1 January 2013;
  - (ii) the IASB is expected to permit early application of the five IFRSs only if all five are applied at the same time. However, an entity will be permitted to provide some of the disclosures specified in IFRS 12 without being compelled to comply with all of IFRS 12 or adopt the other four standards; and
  - (iii) the IASB is due to release shortly the ballot drafts for the five standards; and
- (b) the AASB/FRSB joint project 'Control in the NFP Sector' — the Board noted In particular that:
  - (i) the staff is continuing its work on the paragraph-by-paragraph review of the IASB staff draft of IFRS 10 to identify potential areas for domestic NFP/public sector paragraphs; and
  - (ii) the staff is continuing its work on a report identifying application issues relating to control in the public sector and a literature review of issues relating to control in the NFP private sector.

The Board agreed a revised plan for the Control in the NFP Sector project, which anticipates the issue by October 2011 of an exposure draft proposing not-for-profit specific modifications to AASB 10 *Consolidated Financial Statements* (incorporating IFRS 10). In doing so, the Board affirmed its decision to issue AASB 10 (incorporating IFRS 10) as soon as possible after IFRS 10 is issued, but with early adoption by NFP entities not permitted until the Board has addressed relevant NFP sector issues. The Board noted that its work on NFP issues will provide the Board with an opportunity to undertake its due diligence of the suitability of IFRS 10 in a NFP context and address concerns that NFPs might otherwise be required to change their accounting practices twice in relatively quick succession.

In light of the standard setting changes occurring in NZ, the AASB decided to proceed with the project as an AASB project but to welcome input from NZ.

Action: Staff  
Sub-committee

## Service Performance Reporting

Agenda Item J6

The Board had before it a memorandum from Huy Pham and Robert Keys dated 2 March 2011 (*agenda paper J6.1*).

The Board received an update on the progress being made on its Service Performance Reporting (SPR) project. In particular, the Board noted the following:

- (a) the project team has prepared working drafts of the following four papers intended to form the basis of any principles the Board might develop for SPR:
  - (i) *Principles of service performance reporting – a working definition of service performance reporting (October 2010 agenda paper 7.8.1)*;
  - (ii) *Applicability of the current AASB and FRSB Conceptual Frameworks to service performance reporting (October 2010 agenda paper 7.8.2)*;
  - (iii) *Principles of service performance reporting – the objective of service performance reports (October 2010 agenda paper 7.8.2A)*; and
  - (iv) *The identification of users and user needs in relation to service performance reporting (October 2010 agenda Paper 7.6)*.
- (b) these papers have been sent to Project Advisory Panel and Working Group members, any comments from whom will be considered for inclusion in the next draft of the papers, to be sent to the sub-committee for comment;
- (c) reflecting that the project is not a conceptual-level project, the papers express tentative views of the project team that the principles of SPR can and should be based on the current AASB Conceptual Framework; and
- (d) later stages of the project will consider the issues of how SPR relates to financial reporting and the IFRS Practice Statement *Management Commentary*, and also whether the outcomes of the project should result in voluntary or mandatory pronouncements. The Board commented that the project should also consider the implications of its findings for the scope of general purpose financial reporting, noting that 'usefulness' is not an adequate basis for determining whether and what information about service performance should be included within the scope of financial reports.

The Board observed that the findings of the project might also be applicable in a for-profit private sector context. However, for now, the project's focus should remain on private sector NFP entities, with a view to it being considered for the public sector in due course.

Action:

Staff

Sub-committee

## Employee Benefits

Agenda Item 3

The Board had before it:

- (a) a memorandum from Angus Thomson dated 1 March 2011 (*agenda paper 3.1*); and
- (b) *Broad outline of progress on the revision to IAS 19 / AASB 119, February 2011 (agenda paper 3.2)*.

The Board noted recent developments on employee benefits accounting, in particular in relation to defined benefit obligations, and did not identify any issues at this stage that might prevent members from voting to make a revised AASB 119 *Employee Benefits* that adopts the forthcoming revised IAS 19 *Employee Benefits*.

Staff also advised that the necessary processes have been undertaken with the Office of Best Practice Regulation.

## Australia-New Zealand Convergence – True and Fair View

Agenda Item 4

The Board had before it:

- (a) a memorandum from Angus Thomson dated 1 March 2011 (*agenda paper 4.1*); and
- (b) an extract of the draft AASB 2011-X *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project (agenda paper 4.2)*.

The Board noted that, as part of the project to converge Australian and New Zealand Standards, it has decided:

- (a) to include paragraphs 19 to 22 of IAS 1 *Presentation of Financial Statements* (which deal with extremely rare circumstances in which management of an entity concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective in the Framework) in AASB 101 *Presentation of Financial Statements*; and

- (b) to also include in AASB 101 an 'Aus' paragraph that prohibits entities from using the 'true and fair view override' in paragraph 19 when Australian Accounting Standards form part of an entity's regulatory framework (see (b) below).

The Board also noted that staff has sought and obtained a view from staff at the Attorney-General's Department on whether the requirements of the *Corporations Act 2001* as regards requiring the application of accounting standards might be frustrated by introducing paragraphs 19 to 22 of IAS 1 into AASB 101. The impetus for seeking that view is that the New Zealand Accounting Standards Review Board is seeking a legal opinion on the impact of paragraphs 19 to 22 of IAS 1 (which are already included in NZ IAS 1 *Presentation of Financial Statements*) in the context of the New Zealand *Financial Reporting Act 1993*.

The Board asked staff to:

- (a) provide an assurance that the AASB's Standards are part of the regulatory framework for entities reporting under the Corporations Act; and
- (b) draft an 'Aus' paragraph to be included in AASB 101 (together with paragraphs 19 to 22 of IAS 1) that prohibits the following entities from using paragraph 19:
- (i) subject to (a), entities reporting under the Corporations Act;
  - (ii) NFP entities, including governments; and
  - (iii) entities applying Tier 2 requirements.

The Board also asked staff to consider making (b) (ii) conditional on whether the entity makes an unreserved statement of compliance with IFRSs, because there are some NFP entities that are able to prepare IFRS compliant financial statements and which might want to make an unreserved statement of compliance.

The Board agreed that the matter should be reconsidered at the April 2011 meeting and that staff may seek feedback from members on revised wording out-of-session.

The Board noted it intends to make the convergence changes to its Standards by 30 June 2011.

Action:

Staff

## Fair Value Measurement

Agenda Item 9

The Board had before it:

- (a) a memorandum from Raymond Yu dated 1 March 2011 (*agenda paper 9.1*);
- (b) an issues paper *Fair Value Measurement by Not-for-Profit Entities* (*agenda paper 9.2*);
- (c) an extract from NZ IAS 16 regarding PBE guidance on depreciated replacement cost (*agenda paper 9.3*); and

- (d) a confidential copy of IASB pre-ballot draft of IFRS 13 *Fair Value Measurement* (agenda paper J4.5 for the joint AASB-FRSB meeting).

The Board considered the issues paper on whether any NFP-specific modifications to the forthcoming IFRS on Fair Value Measurement (IFRS 13) are warranted in the light of comments received on AASB ED 181 *Fair Value Measurement* and ED 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* regarding the proposed IFRS. The AASB particularly considered comments from some constituents that the following disclosures, for fair value measurements categorised within Level 3 of the fair value hierarchy, would give rise to costs exceeding the related benefits, and therefore should not be required of NFPs:

- (a) a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs might result in a significantly different fair value; and
- (b) a description of any interrelationships between the inputs mentioned in (a) and other unobservable inputs used in the fair value measurement.

The Board decided that, if the IASB proceeds with its proposals:

- (a) there is not a NFP-specific reason to provide an exemption from the above-mentioned disclosures; and
- (b) none of the other issues in the issues paper warrant a NFP-specific modification to the forthcoming IFRS 13 when it is incorporated in an Australian Accounting Standard.

Action:

Staff

## **GAAP/GFS Harmonisation – Entities within the GGS**

### Agenda Item 7

The Board had before it:

- (a) a memorandum from Robert Keys dated 2 March 2011 (agenda paper 7.1);
- (b) second pre-ballot draft ED XXX *Not-for-Profit Entities within the General Government Sector* – marked-up from the first pre-ballot draft (agenda paper 7.2);
- (c) an alternative draft Basis for Conclusions – incorporating the alternative view of Robert Williams (agenda paper 7.2A);
- (d) staff suggestions for amending agenda paper 7.2 based on out-of-session Board member comments (agenda paper 7.2B);
- (e) sweep issues arising from the first pre-ballot draft ED (agenda paper 7.3);
- (f) an issues paper *Comparison of Administered Items Disclosure Requirements in AASB 1050 and Draft ED XXX (Agenda paper 7.4)* – provided as a background paper to sweep issue 3 in agenda paper 7.3; and

- (g) *Analysis of Disclosure Requirements Proposed in ED XXX with a View to Determining Corresponding Tier 2 Disclosure Requirements (Agenda paper 7.5)* – as agreed by the RDR sub-committee and subsequently marked-up to reflect the insertion of paragraph 21 into ED XXX re AASB 1052 *Disaggregated Disclosures*, provided for information.

In relation to Agenda paper 7.2B, the Board agreed with the manner in which staff suggested amending:

- (a) footnote 1 and the lead-in to specific matter for comment (a) in the Preface to the draft ED, to address concern about giving undue status to particular constituents. However, it decided that the content of the amended footnote 1 should be incorporated into the body of the Preface rather than included in a footnote; and
- (b) the third paragraph under the heading 'Entities within the GGS' in the Preface, to address concerns about the manner in which the interrelationship between 'government units'/'institutional units' under GFS and 'reporting entities' under GAAP is explained.

The Board decided the following in relation to the sweep issues in agenda paper 7.3.

Sweep issue 1 (whether entities should be prohibited from including GAAP/GFS harmonised classification information on the face of the financial statements): agenda paper 7.2 as drafted (proposing a choice between on face and in notes disclosure) is appropriate, as is the specific matter for comment (a)(iv) on the issue. The Basis for Conclusions should be amended to note that several Board members would prefer the information to be disclosed only in the notes (and prohibited from being disclosed in the financial statements), for the reasons expressed in the first column of the table in agenda paper 7.3.

Sweep issue 2 (whether disclosure of GAAP/GFS harmonised classification information should only be required to be disclosed at a GFS category level, rather than at a line item level, where it is presented in the notes): agenda paper 7.2 as drafted (proposing disclosure at the line item level) is appropriate. A specific matter for comment should be added to the Preface to seek constituent views on whether information at a line item level is more beneficial than at the GFS category level.

Sweep issue 3 (whether AASB 1050 *Administered Items* should remain applicable): agenda paper 7.2 as drafted (proposing AASB 1050 continue to apply) is appropriate, given that issues relating to administered items are within the scope of the Board's separate Control in the NFP Public and Private Sectors project. The Board re-affirmed its intention to fundamentally review AASB 1050 as part of that project.

Sweep issue 4 (whether budgetary reporting proposals should be extended to apply to administered items): agenda paper 7.2 should be amended to propose that budgetary reporting requirements apply to both

controlled and administered items. This is on the basis that some entities present to parliament information about both controlled and administered items. Accordingly, the rationale for imposing requirements relating to controlled items contained in the Basis for Conclusions in agenda paper 7.2 is equally applicable to administered items. The Board noted that the requirements would only apply to administered items if an entity presents budgeted administered financial statements to the relevant Parliament.

Sweep issue 5 (the extent to which the history of the project should be included in the Basis for Conclusions): The Board decided that the Basis for Conclusions should be expanded to include a greater level of historical context to the proposals, particularly the circumstances leading to exposure of new proposals, in light of the fact that the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS* did not proceed. The aim is to provide a context for those constituents who might not have been involved in the early stages of the project. In particular, the Basis for Conclusions should note that, following consideration of the submissions on ED 174 and after discussions with the FRC, the Board decided to issue proposals that would adopt GAAP/GFS harmonisation principles and other requirements (such as budgetary reporting) to the extent that they could make an overall improvement to the quality of financial reporting by not-for-profit entities within the GGS. The Board noted that some of the historical perspective currently in the draft Preface could be included in the Basis for Conclusions.

Sweep issue 6 (Roundtables): The Board decided that Roundtables should be conducted in Sydney and Melbourne at a suitable time for constituents within the four-month comment period (possibly in September 2011).

In relation to agenda paper 7.2A (incorporating Robert Williams' alternative view into the draft ED), the Board decided that Mr Williams' alternative view should be included in a separate section at the end of the Basis for Conclusions, and given AV paragraph numbers (rather than integrated into the Basis for Conclusions as illustrated in the agenda paper).

In relation to agenda paper 7.5 (RDR), the Board agreed with the analysis in the agenda paper, noting that the Preface to the ED includes a specific matter for comment on the extent of relief proposed to be provided to entities adopting Tier 2 requirements. The Board decided the ED should include a note providing a context for the manner in which RDR is dealt with in the ED given that, under AASB 1053 *Application of Tiers of Australian Accounting Standards*, all entities that would be subject to the proposals are Tier 2 entities (albeit that they might elect or be directed by a regulator to adopt Tier 1 requirements).

The Board decided the Alternative View section of the Basis for Conclusions should be reviewed by Mr Williams and a revised draft ED (including the Alternative View) should be reviewed by the project sub-committee prior to it being finalised as a ballot draft for out of session voting.

Action: Staff  
Robert Williams  
Sub-committee

## Reduced Disclosure Requirements

Agenda Item 8

### Differential reporting research project update

Agenda Item 8.1

The Board had before it a memorandum from Ahmad Hamidi dated 1 March 2011 (*agenda paper 8.1*).

The Board considered the update on the status of the differential reporting research project. It noted that the thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding light on (a) whether there is consistency in the population of entities currently identified as non-reporting entities, and (b) the nature of the accounting policy choices being made by non-reporting entities.

Staff informed the Board that the research project has to date gone through the following stages:

- (a) identifying research issues;
- (b) establishing contact with other regulators and arranging access to lodged financial statements; and
- (c) securing preliminary data on lodging entities for sampling purposes and informing regulators of selected samples.

The Board noted there has been extensive liaison with various regulators in the for-profit and NFP sectors to facilitate access to the required data.

### RDR due process

Agenda Item 8.2

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 1 March 2011 (*agenda paper 8.2*); and
- (b) a submission on Tier 2 Supplement to ED 198 *Contracts with Customers* (*agenda paper 8.2.1*).

The Board noted that some constituents have commented that Tier 2 supplements should not be issued concurrently with Tier 1 Exposure Drafts (EDs); rather, they should await the finalisation of Tier 1 Standards.

Some constituents have also noted that, in the current environment, the IASB is amending its proposals (including disclosure proposals) to such an extent after having issued an ED that Tier 2 disclosure proposals may subsequently need to change significantly if they were originally released at the same time as the Tier 1 ED. However, it was noted by the Board that this should not be a concern in the longer term.

Staff recommended that the current process of issuing a Tier 2 ED concurrently with a Tier 1 ED, or shortly afterwards, should remain in place for the following reasons:

- (a) consistency with the Board's due process for promulgating Standards;
- (b) minimising staff work since it can be done when the relevant staff have already spent time to familiarise themselves with issues proposed in a Tier 1 ED. Similar economy is expected for constituents;
- (c) encouraging Tier 2 entities not to confine their comments to Tier 2 proposals but to also comment on recognition, measurement and presentation proposals in Tier 1 EDs; and
- (d) consistency with an RDR premise to allow Tier 2 entities to benefit from Tier 1 improvements at the same time as Tier 1 entities.

The Board noted it views Tier 1 and Tier 2 requirements as a single body of Standards and, accordingly, it is the AASB's intention that (as the default position) Tier 2 proposals are included in Tier 1 EDs for constituent comment. The Board also noted that, in some circumstances, because of the timing of Tier 1 proposals and the related timing of a submission to the IASB, the Board may seek comment separately in a Tier 2 Supplement as soon as practicable after the publication of the related Tier 1 ED.

## **Sweep issues relating to Tier 2 Supplement to ED 210**

The Board had before it:

- (a) a memorandum dated 1 March 2011 from Christina Ng (*agenda paper 8.3*);
- (b) *Tier 2 disclosure principles* (*agenda paper 8.3.1*); and
- (c) a pre-ballot draft of AASB Tier 2 Supplement to ED 210 *Financial Instruments: Impairment* (*agenda paper 8.3.2*).

The Board considered sweep issues relating to disclosures in ED 210 *Financial Instruments: Impairment* that are proposed to be retained or excluded for Tier 2 reporting. The Board noted that there are diverse views among differential reporting sub-committee members about whether the IASB's proposed expected loss model is a different recognition and measurement basis from that in the *IFRS for SMEs* and, accordingly, which principles should be applied in formulating proposals for reduced disclosures. The Board decided to

regard the IASB's proposed expected loss model for financial assets measured at amortised cost as a different recognition and measurement model from that in the *IFRS for SMEs*. The Board also decided to include in the Tier 2 supplement to ED 210 a question about whether to include or exclude paragraph 27 of ED 210 from the Tier 2 disclosure requirements.

The Tier 2 Supplement to ED 210 will be published for comment on the AASB website for a period of 90 days.

Action:

Staff

## Offsetting Financial Assets and Financial Liabilities

Agenda Item 5

The Board had before it:

- (a) a memorandum dated 1 March 2011 from Christina Ng (*agenda paper 5.1*);
- (b) staff views on the IASB ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* (*agenda paper 5.2*); and
- (c) IASB ED/2011/1 (*agenda paper 5.3*).

The Board noted that IASB ED/2011/1 (AASB ED 209) is not expected to change the existing offsetting criteria under IAS 32 *Financial Instruments: Presentation*, but it proposes new guidance on how to apply the offsetting criteria and new disclosures when offsetting is applied.

The Board identified key issues and comments to be included in its submission to the IASB in response to IASB ED/2011/1. Overall, the Board agreed with the IASB proposal to retain the existing offsetting criteria under IAS 32. However, the Board:

- (a) was concerned that the proposed additional guidance relating to the notion of 'unconditional right', and its application in all circumstances (including in times of bankruptcy and insolvency) might be inconsistent with the way in which other Standards apply the notion of 'unconditional right'. Accordingly, the Board considered the IASB should clarify its intention in proposing the guidance relating to 'unconditional right', and how that relates to other Standards with a similar notion, for example, the assessment of current/non-current liabilities in paragraph 69(d) of IAS 1 *Presentation of Financial Statements*; and
- (b) considered that the cost burden in making the proposed additional disclosures about financial instruments that do not meet the offsetting criteria might overwhelm user benefits, for example, information about each conditional right or arrangements that are not intended to be settled net or simultaneously. The Board believes a principles-based approach that enables users of the financial

statements to evaluate the financial effect of offsetting financial assets and financial liabilities on the face of the statement of financial position should be considered in formulating disclosure requirements.

Comments to the AASB on ED 209 are due by 11 April 2011 and to the IASB on ED/2011/1 are due by 28 April 2011. The Board agreed to finalise its submission to the IASB out of session.

Action: Staff  
Board members

## Emerging Issues

Agenda Item 10

### **Emissions Trading/Carbon Pricing** (Agenda item J7)

The Board received a verbal update from AASB staff regarding the recent Australian Government announcement about a fixed-price emission scheme. Possible accounting treatments by the Government and by emitting entities of the transactions arising from the proposed scheme were discussed. The Board noted that the scheme might have implications for impairment testing and onerous contracts. Any discussion of accounting for such transactions is very preliminary at this stage, and the Board agreed that staff should monitor developments with a view to updating the Board periodically.

Action: Staff

### **Financial Reporting for Superannuation Plans**

The Board noted that a draft revised Exposure Draft on financial reporting by superannuation plans and approved deposit funds is currently being developed and AASB sub-committee members have provided comments to staff. Staff are now working towards a ballot draft of the Exposure Draft.

Staff highlighted some of the issues dealt with in the draft revised Exposure Draft and some members noted that, while they plan to vote in favour of the release of the Exposure Draft because, overall, they believe the adoption of the proposals would improve the quality of financial reporting for superannuation plans, they expressed concerns with aspects of the Exposure Draft. In particular, they disagree with the proposed requirement to re-measure acquired intangible assets at fair value at each reporting period in the consolidated financial statements. They believe imposing different requirements on one type of entity in this case is inconsistent with the Board's policy of transaction neutrality and that:

- (a) there is no clear justification as to why superannuation entities and other entities that carry the majority of their assets at fair value should account for similar transactions differently;

- (b) the proposed treatment of acquired intangible assets in the ED is inconsistent with the treatment of internally generated assets, thus reducing the information value of the requirements; and
- (c) the proposals are not justified on cost-benefit grounds.

## Leases project

The Board received an update on the IASB/FASB deliberations to date on the Leases project (*agenda paper 10.1*, tabled). The Board noted the tentative decisions made by the IASB/FASB on the project and asked staff to obtain further details on the targeted outreach being conducted by the IASB/FASB staff in relation to the project.

Action: Staff  
Sub-committee

## Australia and New Zealand mutual recognition of financial reports of for-profit entities

The Board agreed that sufficient harmonisation and comparability between the Australian and New Zealand financial reporting frameworks for Tier 1 for-profit entities had been achieved for the Board to consider recommending to regulators that financial reports prepared in either jurisdiction should be recognised automatically in the other jurisdiction.

Members also raised the need to address and rationalise requirements to prepare a consolidated financial report at the parent level in both jurisdictions (in Australia currently required by paragraph Aus10.1 of AASB 127). The Board agreed the issue should once again be raised with TTAASAG. Board members were asked to consider if there were any further related issues.

Action: Chair  
Staff  
Board members

## Other Business

Agenda Item 11

The Board noted agenda papers 11.1 to 11.7

## Voting procedures

The Board noted that:

- (a) the current procedure for voting out of session is to have members sign and date a voting form indicating whether the member is voting for or against issuing a document or abstaining from voting; and
- (b) staff have been in contact with staff at the Attorney-General's Department about the procedures the Board needs to follow in respect of out-of-session voting, and the view is that subsection 236A(4) of the *Australian Securities and Investments Act 2001* would allow the Board to set a procedural rule that permits voting to take place by email.

The Board decided to set a procedural rule that permits voting out of session to take place by email in respect of all types of documents, including issuing Exposure Drafts and making Standards.

Action:

Staff  
Board

## Sub-committee membership

The Board noted *AASB Sub-committee membership as at 1 March 2011* (agenda paper 11.8, tabled) and the need to refresh the membership of certain subcommittees because of retirements from the Board.

## Submissions

The Board noted a draft submission regarding the IFRS Foundation Monitoring Board Review would be circulated to Board members for their out-of-session review.

The Board agreed not to make a submission to the NZ ASRB on its Consultative Paper regarding its future NFP accounting framework.

## Review – AASB only

Agenda Item 12

Board members made no specific comments.

## Close of Meeting

The Chairman closed the meeting at 12.50 p.m. on Thursday 17 March 2011.

## Approval

Signed by the Chairman as a correct record  
this 28th day of April 2011

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