



Subject: Minutes of the 90th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 27 August 2008 from 8:30 a.m. to 4:45 p.m..

All agenda items except items 1, and 2 were discussed in public.

ATTENDANCE

Members David Boymal (Chairman)
 Glenn Appleyard
 Sue Highland
 Mark Jenkin
 John O'Grady
 Colin Parker
 Kris Peach
 Joanna Perry
 Bruce Porter
 Brett Rix
 Robert Williams

Apologies Jan McCahey
 Frank Palmer

Staff Dean Arden (in part)
 Natalie Batsakis (in part)
 Geoff Harris
 Robert Keys
 Jim Paul (in part)
 Angus Thomson
 Joanna Spencer (in part)

APOLOGIES, AGENDA, MINUTES AND MATTERS ARISING FROM MINUTES

Agenda item 1

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.

Minutes

The Board confirmed the minutes of the 89th meeting held on 30-31 July 2008.

CHAIRMAN'S REPORT

Agenda item 2

The Chairman informed the Board that:

- (a) the peer review process returns should be completed promptly and returned to the FRC;
- (b) the FRC will soon be advertising for applications for appointment to the Board and that members seeking a renewal of their term must respond to the advertisement; and
- (c) a draft statement of expectations (SoE) of the Board has been received from Minister Sherry. The Board indicated that Minister Sherry should be invited to meet with the Board to discuss the SoE and other matters.

Action by: Chairman

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Agenda item 3

The Board had before it:

- (a) a memorandum from Dean Ardern dated 13 August 2008 (Agenda paper 3.1);
- (b) an issues paper on disclosure of a management expense ratio (Agenda paper 3.2);
- (c) an issues paper on the treatment of contributions and benefit payments (Agenda paper 3.3);
- (d) a memorandum from Dean Ardern dated 18 August 2008 (Agenda paper 3.3.1);
- (e) an issues paper on the application of AASB 112 *Income Taxes* to a superannuation plan or approved deposit fund (Agenda paper 3.4);
- (f) an issues paper on disclosures about the sensitivity of its defined benefit members' accrued benefits to changes in actuarial assumptions (Agenda paper 3.5);
- (g) an issues paper on the treatment of superannuation plan insurance arrangements (Agenda paper 3.6);
- (h) an issues paper on the treatment of past service cost (Agenda paper 3.8);
- (i) an issues paper on 'sweep' issues (Agenda paper 3.9); and
- (j) draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda paper 3.10).

The Board considered Agenda papers 3.1 to 3.9 and agreed that the Exposure Draft:

- (a) should not propose that a superannuation plan or ADF disclose a management expense ratio for the entity as a whole;
- (b) should propose that the current presentation requirements in AAS 25 in relation to superannuation contributions, transfers and rollovers not be retained because:
 - (i) member contributions, transfers, rollovers and employer contributions on behalf of a defined contribution member are not in the nature of income of a superannuation plan or ADF as they immediately fully vest in the member and members' interests are a liability of a superannuation plan or ADF;
 - (ii) employer contributions on behalf of a defined benefit member would either give rise to a residual interest in the net assets of a superannuation plan or an obligation to the member. Accordingly, employer contributions on behalf of a defined benefit member are either in the nature of an equity contribution or a liability.

Consistent with this, the Board also agreed that benefit payments are not in the nature of expenses of a superannuation plan or ADF. Accordingly, the current presentation requirements in AAS 25 in relation to benefit payments should not be retained. The Board agreed that the Basis for Conclusions to the Exposure Draft should include an explanation of the Board's reasons for proposing changes to the current treatment of contributions, transfers, rollovers and benefit payments;

- (c) should propose that a superannuation plan or ADF present:
 - (i) an income statement in accordance with AASB 101 *Presentation of Financial Statements* that presents separately income and expense items attributable to investment and other operating activities from changes in accrued benefits;
 - (ii) a statement of changes in members' accrued benefits;
 - (iii) a statement of financial position, a cash flow statement and, where relevant, a statement of changes in equity, in accordance with applicable Australian Accounting Standards; and
 - (iv) notes in accordance with applicable Australian Accounting standards except where the disclosure principles specified in the Exposure Draft apply instead.

The Board also agreed that contributions and accrued benefits should be presented gross of any applicable tax and that the amount of any tax be presented separately. In addition, the Board agreed that the Basis for Conclusions to the Exposure Draft should include an explanation of the Board's reasons for proposing such an approach;

- (d) should include example financial statements illustrating the proposals;
- (e) should propose that a deferred tax asset or liability of a superannuation plan or ADF be measured in accordance with AASB 112 *Income Taxes*. In addition, the Basis for Conclusions to the Exposure Draft should include an explanation as to why the amount of a

deferred tax asset or liability measured under AASB 112 is approximately equivalent to its fair value in a superannuation context;

- (f) should propose that a superannuation plan that has defined benefit members disclose information that provides users with a basis for understanding:
 - (i) the key assumptions used to measure the obligation for defined benefit members' accrued benefits;
 - (ii) the uncertainties surrounding the key assumptions, including the amount and timing of benefit payments;
 - (iii) any changes in the key assumptions from the previous reporting period; and
 - (iv) whether the key assumptions used to calculate the defined benefit obligation in the previous reporting period are consistent with experience;
- (g) should propose that a superannuation plan or ADF that issues insurance contracts to members for death and/or disability cover account for the associated insurance liabilities in accordance with AASB 1038 *Life Insurance Contracts*; and
- (h) should propose that a superannuation plan recognise all past benefit cost in the period in which an amendment to the superannuation plan's trust deed occurs;
- (i) should propose definitions of a defined contribution member and a defined benefit member that are based on the definitions of defined contribution plan and a defined benefit plan in AAS 25; and
- (j) should not propose including any guidance in relation to:
 - (i) the application of the amendments to AASB 132 Financial Instruments: Presentation arising from AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation in relation to a subsidiary of a superannuation plan or ADF; or
 - (ii) the classification of a non-controlling interest in the consolidated financial statements of a parent superannuation plan or a parent ADF.

The Board considered Agenda paper 3.10 and agreed that the Exposure Draft should:

- (a) should propose that a superannuation plan or ADF recognise assets and liabilities in accordance with other applicable Australian Accounting Standards, measured at fair value adjusted for estimated costs to sell, except that:
 - (i) a deferred tax asset or liability be measured in accordance with AASB 112;
 - (ii) members' accrued benefits be recognised in accordance with other proposals in the Exposure Draft, with defined benefit members' accrued benefits measured at the present value of the estimated benefit payments using the Projected Unit Credit Method; and

- (iii) in the consolidated financial report of a parent entity, the recognised assets and liabilities of a subsidiary be measured at fair value adjusted for estimated costs to sell (except for deferred tax balances). A balancing item representing the difference between the fair value of a subsidiary and the fair value of its recognised net assets be presented in the statement of financial position;
- (b) clarify that the risks inherent in a liability for defined benefit members' accrued benefits should be factored into the measurement of the expected future benefit payments;
- (c) should propose that early adoption of the Standard be permitted;
- (d) should propose that, if a parent superannuation plan or parent ADF prepares separate financial statements for the information of users who are unable to command information tailored to their needs, the entity should present the separate financial statements together with its consolidated financial statements. The Board also agreed that that, if a parent entity does not present its separate and consolidated financial statements together, it should disclose sufficient parent entity information to provide users with a basis for understanding the reported results of the group; and
- (e) should include discussion in Appendix B in relation to accounting for gains or losses on the settlement of an obligation for defined benefit members' accrued benefits.

The Board also agreed that the Exposure Draft 16X be amended in accordance with the changes described in Attachment A to these minutes.

The Board directed staff to prepare a revised version of draft Exposure Draft 16X for consideration at its September 2008 meeting.

Action by: Staff

FINANCIAL INSTRUMENTS

Agenda item 4

The Board had before it:

- (a) a memorandum from Natalie Batsakis dated 19 August 2008 (Agenda item 4.1); and
- (b) draft proposed AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items* (Agenda paper 4.2).

The AASB made Accounting Standard AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items* to apply retrospectively for annual reporting periods beginning on or after 1 July 2009, with earlier application permitted.

The Board noted that:

- (a) AASB 2008-8 amends the application guidance of AASB 139 *Financial Instruments: Recognition and Measurement* to clarify how the existing principles underlying hedge accounting apply to the designation of:

- (i) a one-sided risk in a hedged item;
 - (ii) inflation as a hedged risk or portion in particular circumstances; and
- (b) the IASB, in response to submissions from constituents, including the AASB, determined that diversity in practice exists, or is likely to exist, in these areas and decided to develop application guidance to illustrate how the hedge accounting requirements should be applied in these two particular situations, rather than implementing the 'lists' originally proposed in its Exposure Draft.

Action by: Staff

INTERPRETATIONS

Agenda item 5

The Board had before it:

- (a) a memorandum from Joanna Spencer, dated 19 August 2008, re Interpretations (Agenda paper 5.1);
- (b) a paper: Interpretations issues in progress (IFRIC and domestic topics) as at 19 August 2008 (Agenda paper 5.2);
- (c) a memorandum from Joanna Spencer, Jim Paul and Natalie Batsakis, dated 19 August 2008, re Interpretations 15 and 16 (Agenda paper 5.3);
- (d) draft AASB Interpretation 15 *Agreements for the Construction of Real Estate* (Agenda paper 5.4);
- (e) a staff note: Background Information on Draft Interpretation 15 *Agreements for the Construction of Real Estate* (Agenda paper 5.5);
- (f) draft AASB Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* (Agenda paper 5.6); and
- (g) a letter from David Tweedie, IASB Chairman, dated 3 June 2008, to David Boymal, AASB Chairman, re IAS 24 *Related Party Disclosures* (Agenda paper 5.7).

The Board noted:

- (a) the Interpretations issues in progress and directed staff to remove the item 'Split Investments in Associates in Consolidated Financial Statements' from the list of domestic issues; and
- (b) the letter from David Tweedie indicating that the IASB would consider possible alternative approaches at its September meeting. The Board agreed to await the outcome of the IASB's September 2008 Board meeting before making a decision on whether to refer the issue to IFRIC if the IASB decides not to address the query.

AASB Interpretation 15

The Board approved AASB Interpretation 15 *Agreements for the Construction of Real Estate* which will apply to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted.

AASB Interpretation 16

The Board approved AASB Interpretation 16 *Hedges of a Net Investment if a Foreign Operation*, which will apply to annual reporting periods beginning on or after 1 October 2008 with early adoption permitted.

Action by: Staff

ANNUAL IMPROVEMENTS AND EARNINGS PER SHARE

Agenda item 6

The Board had before it:

- (a) a memorandum from Geoff Harris dated 12 August 2008 (Agenda paper 6.1);
- (b) draft AASB Preface to IASB Exposure Draft (Agenda paper 6.2);
- (c) IASB Exposure Draft *Improvements to IFRSs* (Agenda paper 6.3);
- (d) a memorandum from Angus Thomson and Rutendo Kaviya dated 18 August 2008 (Agenda paper 6.4);
- (e) draft AASB Preface to IASB Exposure Draft (Agenda paper 6.5); and
- (f) IASB Exposure Draft *Simplifying Earnings per Share – Proposed Amendments to IAS 33* (Agenda paper 6.6).

Annual Improvements

The Board:

- (a) noted the changes proposed by the IASB and agreed to use the *Action Alert* to draw the attention of not-for-profit constituents to the proposed guidance to be included in AASB 118 *Revenue* in relation to entities acting as a principal or as an agent;
- (b) decided to specifically request comment from constituents in respect of the implications of the guidance to be included in AASB 118 for accounting by not-for-profit entities, particularly public sector entities. The Board was informed that the FRSB proposes to highlight this item to its constituents and agreed to include a question similar to the FRSB's question in the Preface to the Exposure Draft;
- (c) decided that the Preface should include a summary of the items and the standards affected and agreed that the table from the IASB Exposure Draft be included;

- (d) decided to request comments from constituents by 20 October 2008 so that the Board could consider constituents' comments when preparing its submission to the IASB; and
- (e) approved the issue of the Exposure Draft subject to review by the Chairman.

Action: Chairman
 Staff

Earnings per Share

The Board approved Exposure Draft *Simplifying Earnings per Share – Proposed Amendments to AASB 133* and decided to request comments by 31 October 2008 so that the Board could consider constituents' comments when preparing its submission to the IASB.

Action by: Staff

CONCISE FINANCIAL REPORTS

Agenda item 7

The Board had before it:

- (a) a memorandum from Geoff Harris dated 12 August 2008 (Agenda paper 7.1);
- (b) draft proposed AASB 1039 *Concise Financial Reports* (clean copy) (Agenda paper 7.2); and
- (c) draft proposed AASB 1039 *Concise Financial Reports* (marked-up copy) (Agenda paper 7.3).

The Board:

- (a) discussed whether a standard on concise financial reports is still necessary and noted that AASB 1039 needed to be kept up-to-date while the *Corporations Act 2001* permitted companies to issue a concise report to shareholders;
- (b) noted that the Joint Parliamentary Committee has recommended the repeal of the provisions relating to concise reports and that the Board should revisit the topic in terms of developing guidance on providing summary financial information if the provisions are not repealed;
- (c) made revised AASB 1039 to apply to annual reporting periods commencing on or after 1 January 2009 and decided that early adoption be permitted if revisions to AASB 101 *Presentation of Financial Statements* and AASB 8 *Operating Segments* are adopted by the entity in respect of the same annual reporting period.

Action: Chairman
 Staff

OTHER BUSINESS AND CORRESPONDENCE

Agenda item 8

The Board had before it:

- (a) a letter from Peter Gibson, Department of Finance and Deregulation, dated 1 August 2008, to David Boymal, AASB Chairman, re emissions trading (Agenda paper 8.1);
- (b) an extract from Chapter 11, Green Paper *Carbon Pollution Reduction Scheme* (Agenda paper 8.1.1);
- (c) AASB submission on IPSASB ED 34 *Social Benefits* (Agenda paper 8.2);
- (d) a letter from Jim Murphy, Acting Secretary, Heads of Treasuries, dated 28 July 2008 to David Boymal, AASB Chairman, re GAAP/GFS Harmonisation (Agenda paper 8.3);
- (e) a letter from David Boymal, Chairman, AASB, dated 20 August 2008, to Bede Fraser, Corporations and Financial Services Division, The Treasury, re statement of expectations (Agenda paper 8.4 – tabled); and
- (f) a copy of a report on the IFAC PSASB meeting (June 2008) (Agenda paper 8.5 – tabled).

The Board noted the correspondence.

CLOSE OF MEETING

The Chairman closed the meeting at 4:45 p.m. on 27 August 2008.

APPROVAL

Signed by the Chairman as a correct record
this 24th day of September 2008.

ATTACHMENT A

Superannuation Plans and ADFs

Agenda item 3

The Board considered draft ED 16X *Superannuation Plans and Approved Deposit Funds* (Agenda paper 3.10) and agreed to make the following amendments:

- (a) the Preface should note that, while the application requirements are based on the reporting entity concept, the Board is currently evaluating the concept in light of its Differential reporting project and the IASB's Discussion Paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Reporting Entity*. Accordingly, when the Board has completed its deliberations in relation to its Differential Reporting project it will reconsider the Application paragraphs in the ED;
- (b) the Reasons for Issuing the ED section should be condensed and identify the shortcomings of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* in the Australian context as well as the particular features of superannuation plans and ADFs;
- (c) the Preface to the draft ED 16X should include a section comparing the proposals in the ED with the current requirements in AAS 25;
- (d) the core principle of the ED should be identified in a paragraph following paragraph 1 and make reference to fair value measurement to meet users' needs;
- (e) change references to 'anticipated disposal costs' to ensure they are consistent with equivalent terms in other Australian Accounting Standards, such as 'costs to sell' in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (f) clarify in Appendix B the circumstances in which the proposals in the ED would apply instead of the corresponding requirements in other Australian Accounting Standards;
- (g) 'black letter' paragraphs be inserted before paragraph 6 outlining the recognition criteria to be applied to the assets and liabilities other than accrued benefits of a superannuation plan or ADF;
- (h) make paragraph 11 'black letter';
- (i) to include all material that is in the nature of guidance in Appendix B;
- (j) to amend paragraph 14 to clarify that the accrued benefits of defined contribution members is the amount such members would be entitled to if they exited the plan or ADF. In addition, the Board directed staff to consider the requirements in AASB 139 *Financial Instruments: Recognition and Measurement* in relation to a financial liability with a demand feature when drafting amendments to paragraph 14;
- (k) to accept the proposed amendments to paragraphs 15 – 24;

- (l) to amend paragraph 15 to emphasise the measurement principle in respect of defined benefit members' accrued benefits and insert a 'black letter' paragraph after paragraph 15 that specifies that the Projected Unit Credit Method be used to measure the accrued benefits of such members. In addition, the Board directed staff to investigate whether the application of the Projected Unit of Credit Method would ensure that members' benefits are attributed to reporting periods on a straight-line basis, even when service to an employer would lead to a materially higher level of benefits in later periods of service as compared to earlier periods;
- (m) to amend paragraph 19 to clarify that administration costs are not included in the measurement of a superannuation plan's obligation for its defined benefit members' accrued benefits because they are not an obligation to members;
- (n) to change paragraph 20 to guidance relocated in Appendix B;
- (o) to accept the proposed amendments to paragraphs 26(a) – 29. In addition, the first sentence of paragraph 26 should be retained because it embodies the principle underlying the use of actuarial assumptions to measure defined benefit obligations;
- (p) to amend paragraph 33 by replacing the phrase 'state retirement benefits' with 'externally imposed requirements'. The Board also agreed to include a question in the Specific Matters for Comment section asking constituents whether paragraph 33(c) is applicable to any Australian superannuation plans;
- (q) it should be clarified that the risks inherent in a liability for defined benefit members' accrued benefits should be factored into the measurement of the expected future benefit payments. The Board also agreed that paragraphs 42 and 43 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* should be used as a basis for the proposed guidance;
- (r) the Basis for Conclusions should discuss the intrinsic approach as an alternative way of measuring a liability with an embedded option;
- (s) to delete paragraphs 38 – 41, the definition of past benefit cost in Appendix A and paragraphs 5 – 13 of Appendix B;
- (t) paragraph 48 should outline the principle that a parent superannuation plan or parent ADF should apply when preparing consolidated financial statements;
- (u) the Specific Matters for Comment section should include a question asking constituents whether the Board should be more definitive in relation to the information that a parent entity should disclose if it does not present its separate and consolidated financial statements together;
- (v) to amend paragraph 54 to confirm that, unless the superannuation plan's trust deed or past practice indicates otherwise, a surplus or deficiency of net assets attributable to defined benefit members compared with members' accrued benefits is in the nature of equity;
- (w) to accept the proposed amendments to paragraphs 33(b), 35, 36, 40(b) and (c), and 60(a) and (b) of the proposed Standard and paragraph 44(d) of the Appendix B in relation to benefits

resulting from a constructive obligation that go beyond the formal terms of a superannuation plan. In addition, the Board agreed that the implications of a superannuation plan having a constructive obligation in relation to defined benefit members' accrued benefits should be discussed separately in Appendix B;

- (x) to include a question in the Specific Matters for Comment section asking constituents whether they consider the separate disclosure of components of a change in defined benefit members' accrued benefits or the separate disclosure of components of a change in the carrying amount of a higher of option provides useful information for users;
- (y) to combine the disclosure principles in paragraphs 65, 67 and 70 into one disclosure principle;
- (z) to amend paragraph 73 to clarify that a superannuation plan or ADF should disclose information in relation to financial risks to which the entity is exposed but is not required to disclose information in relation to the operational risks to which it is exposed; and
- (aa) to amend disclosure paragraphs to clarify that a superannuation plan or ADF that complies with draft ED 16X would not also be required to disclose information in accordance with the corresponding disclosure requirements in other Australian Accounting Standards