



Issue: Number 135
Date: 11 June 2010
Subject: AASB Meeting 108, 9-10 June 2010

Differential Reporting

The Board considered staff papers and draft Application and Amending Standards for the purpose of introducing a second Tier of requirements for preparing general purpose financial statements into the Australian reporting environment. The planned Standards will not change the reporting of any entity not currently preparing general purpose financial reports. For those that are preparing such reports, and falling into Tier 2, there will be a significant reduction in the volume of disclosure requirements to consider.

The Board finalised its thinking on a number of key issues, including:

- (a) the entities that should be deemed 'publicly accountable' in the Australian environment, and dealing specifically with the possible need for second Tier requirements in respect of insurers and superannuation plans;
- (b) constituent proposals on inclusions/exclusions of disclosure requirements in relation to the second Tier; and
- (c) transitional provisions.

The Board directed staff to proceed with the preparation of pre-ballot drafts of the Standards for out-of-session consideration.

The Board noted that two consultants have been appointed by the AASB to undertake research on the application of the reporting entity concept by entities lodging financial statements with the ASIC, which will be used in stage 2 of the AASB's work on its revision to the Australian differential reporting framework.

Superannuation

The Board continued its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds*.

The Board tentatively decided that, under a replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*:

- (a) any obligations to defined benefit members arising from insurance arrangements provided by a plan should be measured as a part of the plan's obligation for such members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations;

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- (b) to facilitate consistency with the measurement of insurance obligations in relation to defined benefit members, any obligations to defined contribution members arising from insurance arrangements provided by a plan or ADF should be measured by the plan in accordance with the approach in AASB 119 for defined benefit obligations; and
- (c) consistent with the approach under AASB 1038 *Life Insurance Contracts*, any assets arising from insurance arrangements provided by a plan or ADF, such as reinsurance assets, should be recognised separately from insurance liabilities in a plan's statement of financial position.

The Board agreed that it would reconsider the accounting for insurance contracts by superannuation plans once the IASB has finalised its thinking on its Insurance Contracts phase 2 project.

The Board will continue its redeliberations at the July 2010 meeting.

Improvements to IFRSs

The Board considered the following draft Amending Standards:

- (a) AASB 2010-X *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (1 July 2010 amendments); and
- (b) AASB 2010-Y *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (1 January 2011 amendments).

These draft Standards correspond to the IASB's Standard *Improvements to IFRSs* (May 2010). The Board decided the draft Amending Standards should be circulated as ballot drafts for the Board for out-of-session approval.

Financial Instruments – Financial Asset Impairment

The Board considered a staff paper on issues and key comments to be included in its submission to the IASB in response to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, which is incorporated in AASB ED 189. The Board also noted that the IASB has issued a Request for Comment on the FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (May 2010) and comments raised in the staff paper include views on the FASB ED, where it relates to financial asset impairment.

The Board is using constituent input from Roundtable discussions and comment letters received to finalise its submission to the IASB.

In general, the Board is not supportive of the proposed expected loss impairment model and expressed concerns that the model:

- (a) purports to be cost-based but does not adhere to cost measurement principles because it departs from a transaction-based model and combines revenue recognition and asset measurement;

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- (b) separately accounts for initial and subsequent credit loss impairments, which may obscure an overall assessment of impairment and would render the 'open portfolio' approach to accounting for loan assets impracticable;
- (c) employs an effective interest rate methodology that potentially obscures an assessment of interest revenue with the cost of funding (net interest margin) and which might result in the impact of changes other than those related to credit risk being recognised as impairments; and
- (d) focuses on entities in the business of lending money, and may be particularly inappropriate for financial assets at amortised cost held by non-financial institutions.

The Board is also concerned about the usefulness and extent of the proposed disclosures on cumulative loss development, stress testing and 'vintage' information.

As an alternative to the proposed impairment model, the Board considers that the IASB should retain a form of incurred loss model that takes into account a broad range of information in assessing whether events have occurred that give rise to credit losses.

Financial Instruments – Fair Value Option for Financial Liabilities

The Board considered issues and staff comments on IASB ED/2010/4 *Fair Value Option for Financial Liabilities*, which is incorporated in AASB ED 196. The Board also noted that the IASB has issued a Request for Comment on the FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (May 2010) and comments raised in the staff paper include views on the FASB ED, where it relates to the topic.

The Board agreed to comment that:

- (a) a clear measurement attribute should be applied to financial liabilities designated at fair value – if fair value has been chosen, the accounting should be fair value through profit or loss without separately measuring and re-presenting the effects of changes in a liability's credit risk from profit or loss to other comprehensive income; and
- (b) whilst feedback received by the IASB indicates that there is little demand for changing most of the other requirements under IAS 39 for financial liabilities, the IASB should consider the consistency of the measurement models for financial assets under IFRS 9 and financial liabilities.

The Board will consider constituent input on ED 196 in finalising its submission to the IASB.

Extractive Activities

The Board participated in an education session on the IASB's Discussion Paper DP/2010/1 *Extractive Activities*, (which was issued by the AASB as ITC 23 *Extractive Activities*). The Board was informed that the DP, which contains the Project Team's views and not those of the IASB, proposes that:

- (a) a common basis for defining 'reserves and resources' for minerals or oil and gas should be used;

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- (b) the initial focus for accounting for mineral or oil and gas properties should be the legal rights to that property and the value of that right may increase as knowledge about the property increases; and
- (c) minerals or oil and gas properties should be measured at historical cost supplemented with detailed disclosure about the property.

The Board agreed that, at the July 2010 meeting, staff would present an issues paper taking into account constituent comments and Board member comments.

Conceptual Framework – Reporting Entity

The Board considered the IASB's Conceptual Framework Exposure Draft *The Reporting Entity* and tentatively decided to support the ED's proposals, subject to considering comment letters it receives on AASB ED 193 (which incorporates the IASB ED). The Board also tentatively decided to recommend that the revised IASB *Framework* should separately include concepts identifying the characteristics of entities that should prepare general purpose financial reports.

Conceptual Framework – Objective and Qualitative Characteristics: Not-for-Profit Entities

The Board decided that the IASB's forthcoming Conceptual Framework chapters on the *Objective of General Purpose Financial Reporting* and the *Qualitative Characteristics of, and Constraints on, Useful Financial Information* should, when issued in Australia, be applicable to all reporting entities. Those chapters will include limited additional guidance necessary for their application by not-for-profit entities. The chapters will be updated to reflect the outcome of the IASB's consideration of not-for-profit entity issues in Phase G of its joint Conceptual Framework project with the FASB.

Liabilities – Not-for-Profit Modifications

The Board considered whether the not-for-profit (NFP) entity modification to be included in the replacement Standard expected for AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* should be in the form of guidance or as a scope exclusion, and the due process for making that modification.

The Board decided:

- (a) to carry forward the guidance in paragraphs Aus26.1 and Aus26.2 of AASB 137, amended to the extent necessary to accommodate changes between IAS 37 and its replacement IFRS; and
- (b) that there is no need to expose the guidance for public comment because it will be substantially unchanged, and the Board's decision to change the scope of the guidance from local governments, government departments and governments to public sector NFP entities is not expected to result in a significant change in practice.

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IPSASB – Service Concession Arrangements: Grantor

The Board considered constituents' comments on the AASB Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft "Service Concession Arrangements: Grantor"* and discussed the main points to be included in its submission to the IPSASB.

Among other matters, the Board decided that its submission should:

- (a) express the view that the grantor should recognise a service concession asset constructed by the operator as the construction takes place, irrespective of whether the construction risk is borne by the grantor or the operator;
- (b) accept the IPSASB proceeding with the performance obligations approach, with clarification of some aspects; and
- (c) propose retrospective (rather than prospective) application of the Standard when first applied by an entity.

A subcommittee will finalise the Board's submission to the IPSASB out of session.

Interpretations

The Board received an update from the IFRS Interpretations Committee's May 2010 meeting, which included agenda issues, tentative and final agenda decisions, annual improvements and work in progress.

The Board also decided to vote out of session on making a revised version of AASB 1048 *Interpretation and Application of Standards*. The revised AASB 1048 will no longer list all versions of Interpretations that have been superseded.

Minutes

The Board approved the minutes of Meeting 107, held on 17 May 2010. These are now available on the AASB website.

Documents Open for Comment

The following documents are open for comment.

AASB submissions to the IASB, IFRIC or IPSASB are published on the AASB website.

Originating Organisation	Topic	AASB No.	AASB Due Date	IASB/IFRIC/IPSASB Due Date
IASB	Financial Instruments: Amortised Cost and Impairment	ED 189	Closed	30 Jun 2010

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IPSASB	Service Concession Arrangements: Grantor	ED 194	Closed	30 Jun 2010
IPSASB	Improvements to IPSASs	N/A	N/A	30 Jun 2010
IASB	Conceptual Framework for Financial Reporting: The Reporting Entity	ED 193	21 Jun 2010	16 Jul 2010
IASB	Fair Value Option for Financial Liabilities	ED 196	2 Jul 2010	16 Jul 2010
IASB	Extractive Activities	ITC 23	2 Jul 2010	30 Jul 2010
IASB	Defined Benefit Plans	ED 195	3 Aug 2010	6 Sep 2010
IASB	Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)	ED 197	2 Aug 2010	30 Sep 2010

Next Meeting on 28-29 July 2010 (part joint with FRSB via video conference)

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

- Superannuation
- Financial Instruments
- Service Performance Reporting
- Leases
- Income from Non-exchange Transactions
- Post-Implementation review of AASB 1049
- Extractive Activities

2010 Meeting Dates

Remaining 2010 meeting dates are:

- September 1-2
- October 27-28 (Wellington, NZ)
- December 8-9

Unless indicated otherwise, meetings are held in Melbourne.

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