

## EXTRACTS FROM THE MINUTES OF PREVIOUS AASB BOARD MEETINGS

9-10 JUNE 2010

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

Agenda Item 11

The Board had before it:

- (a) a memorandum from Jim Paul dated 2 June 2010 (Agenda paper 11.1); and
- (b) AASB Staff Paper ‘New *Framework* chapters: application by public benefit entities/not-for-profit entities’ (Agenda paper 11.2).

The Board considered the staff paper and decided that:

- (a) 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 included in the AASB Framework, be applicable to all reporting entities;
- (b) those chapters will include limited additional guidance necessary for their application by not-for-profit entities (NFPs);
- (c) based on the latest information about the likely wording of the IASB’s abovementioned forthcoming *Framework* chapters, the additional guidance on the new Objective chapter of the AASB *Framework* should:
  - (i) repeat paragraph Aus15.1 of the existing AASB *Framework* (which says: “In respect of not-for-profit entities, ownership groups and contributors of donations are generally not concerned with obtaining a financial return but are usually more interested in the ability of an entity to achieve its non-financial objectives, which in turn may depend upon the entity’s financial position and financial performance.”); and
  - (ii) note the broader range of primary users of general purpose financial reports of NFPs;
- (d) paragraph Aus14.1 of the AASB’s existing *Framework* (which says, “A more detailed discussion [of the Objective] is provided in SAC 2 *Objective of General Purpose Financial Reporting*”) should not be included in the new chapter on the Objective;
- (e) based on the latest information about the likely wording of the IASB’s forthcoming Framework chapter on the Qualitative Characteristics, additional application guidance for NFPs in relation to that chapter should be unnecessary;
- (f) 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. The Board will also consider whether to amend the chapters in the light of the IPSASB’s Conceptual Framework after it is completed; and
- (g) the additional application guidance for NFPs in relation to the new *Framework* chapters does not require public exposure.

The Board directed staff to circulate the proposed additional guidance for NFPs for approval out of session. That step is to be taken following the release of the finalised new chapters of the IASB *Framework*. Board members noted that they will consider whether those finalised new chapters and proposed additional guidance:

- (a) give sufficient emphasis to accountability as an objective, or component of the objective, of general purpose financial reporting; and

- (b) adequately acknowledge that users of general purpose financial reports of not-for-profit entities will be interested in:
  - (i) the ability of the entity's available resources to deliver future goods and services;
  - (ii) the quality, cost and effectiveness of goods and services that have been delivered in the past; and
  - (iii) how well the entity is meeting its objectives, which are not primarily related to cash generation.

Action:

Staff  
Members

## 27-28 OCTOBER 2010

### Conceptual Framework – Objective and Qualitative Characteristics

Agenda item 9

The Board had before it:

- (a) a memorandum from Jim Paul dated 14 October 2010 (Agenda Paper 9.1);
- (b) an extract from the minutes of the AASB meeting on 9 – 10 June 2010 (Agenda Paper 9.2);
- (c) new chapters of the revised IASB Conceptual Framework on The Objective of General Purpose Financial Reporting and Qualitative Characteristics of Useful Financial Information (Agenda Paper 9.3);
- (d) a paper entitled 'Sweep Issues Session: issues raised before session' (Agenda Paper 9.4 [table]); and
- (e) a pre-ballot draft of a revised AASB Conceptual Framework incorporating the abovementioned new IASB chapters and covering memorandum from Jim Paul dated 20 October 2010 (these are not Board meeting papers because the Board meeting agenda item was a sweep issues session dealing only with substantive issues).

The Board discussed substantive issues regarding the draft revised AASB Conceptual Framework, including those identified in Agenda Paper 9.4. The Board confirmed that, as an interim step, the extent of additional guidance (Aus paragraphs) for application of the new chapters by not-for-profit entities should be similar to the limited not-for-profit entity guidance in its existing *Framework*. The Board observed that the IASB and FASB will consider not-for-profit entity issues in a later phase of their joint Conceptual Framework project, and that it will subsequently revise its Conceptual Framework in response to the revisions to the IASB Conceptual Framework resulting from that project phase, having regard to developments in the IPSASB Conceptual Framework project.

The Board decided:

- (a) to retain reference to Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* in the body of its revised Conceptual Framework;
- (b) the Foreword to its revised Conceptual Framework should:
  - (i) include comments to position this version of the Framework with the superseded and following versions, including how not-for-profit entity issues are being addressed; and
  - (ii) explain the status of Statements of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* under the revised Conceptual Framework;

- (c) to confirm the staff's proposal to omit the section of the Introduction to the IASB's Conceptual Framework that precedes the 'Purpose and status' section;
- (d) to correct the references to the concepts in the Conceptual Framework having non-mandatory status. Consequently, proposed paragraph Aus1.1 should be omitted and the second sentence of paragraph 2 should be replaced with a description of the role of the Conceptual Framework under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- (e) in the 'Objective' chapter, paragraph AusOB3.1 should be worded along the following lines: "In respect of not-for-profit entities, existing and potential owners and other resource providers are generally not concerned with obtaining a financial return on an investment in the entity, but are usually more interested in the ability of the entity to achieve its non-financial objectives, which in turn may depend upon the entity's financial position and financial performance. These or other primary users of general purpose financial reports of not-for-profit entities (see paragraph AusOB5.1) will, for example, be interested in the capability of the entity's resources to provide goods and services in the future.";
- (f) in the 'Objective' chapter, paragraph AusOB5.1 should be worded along the following lines: "The primary users of general purpose financial reports of not-for-profit entities are existing and potential resource providers (including investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (including beneficiaries, such as members of the community) and parties performing a review or oversight function on behalf of other primary users (including advisers and, in respect of public sector not-for-profit entities, members of parliament).";
- (g) in the 'Objective' chapter, paragraph AusOB5.2 should be worded along the following lines: "The AASB does not see a need to identify primary users of general purpose financial reports of not-for-profit entities because its focus is on the common information needs of the range of users of those reports." Consideration should be given to making related not-for-profit entity modification(s) to emphasise the limited context of subsequent references to 'primary users';
- (h) in the 'Objective' chapter, paragraph AusOB16.1 should be worded along the following lines: "In respect of not-for-profit entities, an indication of how well management has discharged its responsibilities to make efficient and effective use of the reporting entity's resources would also, for example, be provided by information about the quality, cost and effectiveness of goods and services provided in the past."; and
- (i) its revised Conceptual Framework should be applicable for periods beginning on or after 1 July 2011, with early application permitted.

The Board agreed to vote out of session on a ballot draft of its revised Conceptual Framework that incorporates the amendments decided at this Board meeting.

Action:

AASB Staff  
Board Members

## 8-9 DECEMBER 2010

### AASB Conceptual Framework

#### Agenda item 11

The Board had before it:

- (a) a memorandum from Jim Paul dated 3 December 2010 entitled *Conceptual Framework – Objective and Qualitative Characteristics: Further Sweep Issues* (Agenda paper 11.1);
- (b) a staff paper in relation to the third pre-ballot draft of a revised AASB Conceptual Framework, entitled *Sweep Issues Session: issues raised with second pre-ballot draft* (Agenda paper 11.2);
- (c) a staff paper on the status of SAC 1 *Definition of the Reporting Entity* (Agenda paper 11.3);
- (d) a staff paper entitled *Conceptual Framework – Objective and Qualitative Characteristics: IPSASB Developments* (Agenda paper 11.4); and
- (e) a third pre-ballot draft of a revised AASB Conceptual Framework (Agenda paper 11.5).

The Board discussed the third pre-ballot draft of a revised AASB Conceptual Framework incorporating the two new chapters of the IASB Conceptual Framework dealing with the ‘Objective of General Purpose Financial Reporting’ and the ‘Qualitative Characteristics of Useful Financial Information’. The Board decided:

- (a) to issue as soon as possible a revised AASB Framework applicable to for-profit entities that is identical to the revised IASB Framework;
- (b) the revised AASB Framework for for-profit entities should be applicable to reporting periods ending on or after its date of approval by the Board, with early application permitted;
- (c) to retain Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* with its current status, given the references to ‘reporting entity’ in the application paragraphs of Australian Accounting Standards;
- (d) to, for the time being, retain the existing text of the AASB Framework (including its ‘Aus’ paragraphs) for application by not-for-profit entities;
- (e) to, in due course, develop material for not-for-profit entities for incorporation into the revised AASB Conceptual Framework that is:
  - (i) based on the revised IASB Framework; and
  - (ii) expressed in a sector-neutral manner, thus providing a Framework that effectively covers the for-profit and not-for-profit sectors (while continuing the Board’s approach of adopting IASB wording verbatim for application to for-profit entities); and
- (f) in developing the not-for-profit entity material referred to in (e) above, the Board would consider in detail the IPSASB’s Conceptual Framework Consultation Papers and Exposure Draft expected to be issued in December 2010.

The Board made the following decisions about the revised AASB Framework that will be applicable to for-profit entities:

- (a) where the Foreword refers to the use of the definition of ‘reporting entity’ in AASB 1053 *Application of Tiers of Australian Accounting Standards*, reference should also be made to SAC 1;
- (b) paragraph 1.4 of the Application section should state that SAC 2 *Objective of General Purpose Financial Reporting* is superseded in respect of for-profit entities when the existing AASB Framework is superseded;

- (c) the Introduction should be conformed to the wording of the revised IASB Framework. Accordingly:
- (i) the text preceding the ‘Purpose and status’ section, which was omitted from the existing AASB Framework, should be reinstated;
  - (ii) reference in paragraph 2 to the status of the AASB Framework in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should be omitted;
  - (iii) additional paragraph 5(b), which refers to the revised Framework including the concept of a reporting entity, should be omitted;
  - (iv) the AASB’s Basis for Conclusions should explain that the Introduction is being conformed to the Introduction to the IASB Framework issued in 1989 and carried forward in the revised IASB Framework, which predates:
    - (A) the creation, in IAS 8, of the hierarchy of sources (including the Conceptual Framework) to consider in the absence of a Standard or Interpretation on point;
    - (B) the narrowing of ‘primary users’ (in the Objective chapter) from the users referred to in the Introduction; and
    - (C) the forthcoming addition of a chapter on The Reporting Entity;
  - (v) the AASB’s Basis for Conclusions should note that the change in sub-paragraph (i) above involves including IASB Framework ‘Introduction’ text omitted from the existing AASB Framework, and that the Introduction will need to be reviewed in due course by the IASB to address aspects such as those noted in (A) – (C) in sub-paragraph (iv) above; and
  - (vi) the Chairman should write to the IASB advising that the Introduction to the IASB Framework needs to be reviewed promptly to address the aspects noted in (A) – (C) in sub-paragraph (iv) above;
- (d) in addition to reflecting the decisions in paragraph (c) immediately above, the draft of the AASB’s Basis for Conclusions should also be amended to reflect all of the other decisions above; and
- (e) consequential amendments should be made to Australian Accounting Standards (either directly, or through references in an amended AASB 1048 *Interpretation of Standards*) to update their cross-references to the ‘Framework’ from the existing Framework to the revised Framework. Staff should develop the appropriate wording to effect this decision.

The Board will vote out of session on a ballot draft of its revised Conceptual Framework that incorporates the amendments decided at this Board meeting.

The Board directed staff to prepare a further-developed version of Agenda Paper 11.4, regarding wording of a revised Framework for not-for-profit entities, for consideration at a future meeting.

Action:	Staff
	Members (vote on ballot draft)
	Chairman (write to IASB)