



Subject: Minutes of the 145th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 27 May 2015 from 9.30 a.m. to 5.30 p.m.
Thursday 28 May 2015 from 8.30 a.m. to 12.10 p.m.

All agenda items except items 1(a), 10 and 17 were discussed in public.

Attendance

Members	Kris Peach (Chair) Mike Blake Peter Carlson Anna Crawford Regina Fikkers Steve Mitsas Carmen Ridley Taryn Rulton Marc Smit Ann Tarca Megan Wilson
Apologies	Kimberley Crook Peter Gibson Andrew Kearnan
In Attendance: Staff	Clark Anstis (in part) Mitchell Bryce (in part) Nikole Gyles Ahmad Hamidi Ravari (in part) Evelyn Ling (in part) Lisa Panetta Vanessa Sealy-Fisher [New Zealand staff] (in part) Daen Soukseun (in part) Joanna Spencer (in part) Angus Thomson (in part)

Agenda and Declaration of Interests

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.

Declarations of interest noted at the May 2015 meeting included:

- (a) In regard to agenda item five, addressing Recognition of Residual Value for Infrastructure Assets, Mike Blake advised that he had written a public report addressing this issue; and
- (b) In regard to agenda item thirteen, addressing the proposed deferral of IFRS 15 *Revenue from Contracts with Customers*, Megan Wilson advised that she has been consulting with clients on this matter.

No other declarations were made.

Chair Report

Ian Mackintosh visit

The Chair noted that Ian Mackintosh visited the AASB during May and attended both the Conceptual Framework Workshop in Melbourne and the Insurance Contracts Roundtable in Sydney. The Chair further noted that as part of his visit, Mr Macintosh also met with some key constituent organisations in both Melbourne and Sydney.

AASB Outreach

The Chair noted that the AASB staff have conducted the following outreach meetings during May:

- (a) Conceptual Framework Workshop on 7 May; and
- (b) Insurance Contracts Roundtable on 12 May

In addition, the Chair noted that the AASB will be hosting a number of events, both education sessions and roundtables, in June that will focus on the AASB's current and recently completed public sector and not-for-profit entity projects. The projects covered will be: Related Party Transactions; Income of NFP Entities; Reporting Service Performance Information; and Service Concession Arrangements: Grantor. These events will be held in Melbourne, Canberra, Brisbane and Sydney.

Presentations

The Chair noted that in May AASB staff and Board Member Ann Tarca completed presentations for the CAANZ and CPA Australia, noting that the feedback received has been positive.

Other

Documents recently issued

The Chair thanked staff and Board Members for the work involved in issuing three recent Exposure Drafts identified below under the heading 'Approvals Out of Session'.

Staff movements

The Chair also noted staff movements:



- (a) Mark Shying has joined the AASB staff on a one-year contract;
- (b) Shaun Steenkamp will be joining the AASB staff as an Assistant Project Manager for a period of two years starting on 1 June;
- (c) Eric Lee will be joining the AASB staff as a Research Fellow (Project Manager) for a period of twelve months, starting on 1 July; and
- (d) Jim Paul will be leaving the AASB early in the new financial year.

Online submission facility

The Chair further noted that the AASB has launched an online facility for submitting comment letters, noting that the facility will streamline the process for the AASB receiving and publishing submissions.

Apologies, Minutes and Approvals Out of Session

Agenda Item 2

Apologies

Apologies were noted for Kimberley Crook, Peter Gibson and Andrew Kearnan for both days of the meeting. An apology was noted for Peter Carlson from 4.30pm until 5.00pm on day 1 of the meeting. An apology was noted for Anna Crawford for day 2 of the meeting.

Minutes

The Board approved the minutes of the one hundred and forty-fourth meeting held on 15 April 2015.

Approvals Out of Session

The Board noted that the following Exposure Drafts were approved out-of-session:

- (a) AASB Exposure Draft ED 260 *Income of Not-for-Profit Entities*, comments are due by the 14 August 2015 to the AASB;
- (b) AASB Exposure Draft ED 261 *Service Concession Arrangements: Grantor*, comments are due by the 27 July 2015 to the AASB; and
- (c) AASB Exposure Draft ED 262 *Fair Value Disclosures of Not-for-Profit Public Sector Entities*, adverse comments are due by 4 June 2015 to the AASB.

Reporting Service Performance Information

Agenda Item 3

The Board reviewed a revised draft Exposure Draft (ED) on Reporting Service Performance Information and made the following key tentative decisions:

- (a) the project should remain as 'Reporting Service Performance Information' and not be expanded to 'Performance Reporting';



- (b) to confirm its previous decision that the ED will apply to whole of government (WoG) and general government sector (GGS) financial statements and that application guidance will be developed to articulate that, at a WoG and GGS level, service performance information would only be required for the key service performance objectives of the government;
- (c) the ED should continue to have an external focus and internal performance is only relevant for disclosure where it may impact on an entity's external performance;
- (d) the ED should propose requiring entities to report on key risks faced in achieving service performance objectives but, avoid boilerplate and extensive reporting, and require the risks disclosed to be linked to the requirement to report on service performance objectives (paragraph 61(a)) and other factors that have affected the entity's ability to influence outcomes (paragraph 62(d)). The Board also tentatively decided to include application guidance to address this issue;
- (e) the Preface and Basis for Conclusions for the ED should include a discussion on the AASB's mandate to develop the proposals; and
- (f) the Preface should also provide a discussion on the implications of the proposals on entities regulated by the Australian Charities and Not-for-profits Commission.

The Board is targeting issue of an ED in July 2015 and therefore staff's next step is to issue a pre-ballot draft for Board review in June 2015.

Action: Staff

Classification of Liabilities

Agenda Item 4

The Board tentatively decided its submission to the IASB on Exposure Draft ED/2015/1 *Classification of Liabilities (Proposed amendments to IAS 1)* [incorporated into AASB ED 259] should:

- (a) note that, although the AASB is supportive of the IASB's efforts to clarify issues surrounding the classification of liabilities as current or non-current, the proposals as currently drafted do not achieve the intended clarity;
- (b) agree with the proposed deletion of the word 'unconditional' from paragraph 69(d) of IAS 1 *Presentation of Financial Statements*. However, clarification is required as to what a right is. For example, the IASB conclusions noted in paragraph BC4 addressing rights at the end of the reporting period could be included in the body of any final Standard;
- (c) note that the proposed changes to paragraph 72R(a) result in ambiguity in relation to the classification of loans under an existing loan facility when the loans are held with a consortium and/or there is a second counterparty included in the loan facility and that it is not clear how these relate to requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and AASB 9 *Financial Instruments*; and



- (d) express disagreement with the proposed transition requirements. The Board considers the proposed amendments should be applied prospectively on the basis that in determining the classification of a liability an entity needs to have an understanding of the terms and conditions at that point in time. The Board considers that retrospective application would require an entity to inappropriately use hindsight. The Board also decided to note in its submission that it views the proposals as being in the nature of a change in classification and, accordingly, that the requirements in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should not be specifically referred to.

The Board agreed the submission will be finalised through the Board Advisor Group consisting of Board members, Anna Crawford, Regina Fikkers, Kris Peach and Marc Smit.

Action:	Staff
	Board Advisor Group

Recognition of Residual Value for Infrastructure Assets

Agenda Item 5

The Board confirmed its previously stated view that residual value reflects consideration receivable for an asset at the end of its useful life to the entity, and accordingly would not include cost savings from the re-use of in-situ materials. The Board considered the comment letters received and observed that many respondents to the Tentative Agenda Decision supported reflecting the expected cost savings from continued use of part of an asset as part of the residual value of the asset. The Board noted that respondents who were preparers generally regarded this to be a practical approach that aligns financial reporting with asset management practices. The Board also noted that it had received feedback supportive of the Board's views expressed in its Tentative Agenda Decision.

The Board discussed whether there was a supportable argument that the ordinary meaning of the words included in the definition of residual value in AASB 116 *Property, Plant and Equipment* could be read to include expected cost savings from the reuse of part of an asset. The Board, consistent with previous practice, concluded that the ordinary meaning of words needs to be read in the context of the relevant accounting standard definition. It was also noted that the definition of residual value must be read in conjunction with the definition of 'useful life'. The Board decided that the inclusion of expected cost savings from the continued use of part of an asset that is treated as part of the asset's residual value was inappropriate for the following reasons:

- (a) disposal involves loss of control of the asset by the entity at the end of its useful life to the entity – the relocation of an asset into another asset or location does not involve any loss of control of the asset by the entity; and
- (b) where an entity has control of an asset and intends to continue to consume the future economic benefits embodied in an asset through use, the asset cannot be regarded as having reached the end of its useful life to the entity. In the instance of public sector assets held for their current service potential, the useful life is unlikely to be less than the time over which all of the service potential in



that asset is substantially consumed, at which time no cost savings from reuse of the asset would remain available to the entity.

The Board also noted that a residual value that represents a significant portion of an asset's value is indicative that the entity should consider whether an asset that will not be sold before the end of its useful life to the entity has been appropriately componentised. In response to comments received, the Board highlighted that the major inspections example in paragraph 14 of AASB 116 envisages assets being componentised into non-physically distinct components. The Board noted that the component may reflect a percentage of the asset rather than the physical materials comprising the asset.

The Board was conscious of feedback received highlighting potential difficulties and costs that might be incurred by entities on applying the Board's conclusions above. The Board discussed whether to develop an exemption from the requirements of AASB 116 for not-for-profit (NFP) public sector entities. The Board decided not to develop such an exemption as it considered that this would not be consistent with its transaction-neutrality policy, noting that some private sector entities, for example mining companies, may control similar infrastructure assets such as roads. In addition, some NFP public sector entities are already componentising such assets and neither the New Zealand Accounting Standards Board nor the International Public Sector Accounting Standards Board had provided such an exemption in their equivalent accounting standards (which define residual value similarly to AASB 116). Furthermore, the Board decided not to develop any transitional provisions in respect of this project, noting that the consideration of the appropriate accounting for any adjustment that may be necessary is a matter for the entity. The Board noted various shortcut methods may be considered by impacted entities, subject to materiality, including identifying the residual value as the separate component and using blended depreciation rates for the different components.

The Board also considered feedback suggesting that there may be material differences between amounts determined under current practice and the amounts determined in accordance with the view expressed in the Board's Tentative Agenda Decision, particularly where the residual value as a percentage of asset value is high. The Board decided that the wording of its Tentative Agenda Decision will be amended accordingly.

The Board also decided, on the basis of the outreach it had conducted to date, including making inquiries of practice in other countries, that it did not have a case for raising the issue with the IFRS Interpretations Committee.

The Board directed staff to prepare a revised final Agenda Decision and to circulate it to Board members for approval out of session.

The Board also noted that staff are preparing a staff article on the topic that is targeted for issue by the end of Q3 2015.

Action:

Staff

Board Members



Depreciated Replacement Cost as a Measure of Value-in-Use

Agenda Item 6

The Board agreed to issue an ED proposing to remove the requirement to use depreciated replacement cost (DRC) as a measure of value in use where the value of an asset of a NFP entity is not dependent on the asset's ability to generate net cash inflows. The Board noted that the definition of depreciated replacement cost in AASB 136 *Impairment of Assets* and the guidance on current replacement cost in AASB 13 *Fair Value Measurement* (paragraphs B8 and B9) are expected to result in values materially the same, and in practice valuers treat them interchangeably for the specialised assets being considered.

These observations led the Board to the tentative view that the references in AASB 136 to DRC as a measure of value in use are not needed and may cause confusion, particularly for entities already fair valuing non-financial assets. A Basis for Conclusions will explain the rationale for the ED proposal.

The Board directed staff to prepare an ED with a 90-day comment period. The Board agreed that a board advisor group comprising Mike Blake, Steve Mitsas and Taryn Rulton review a draft of the ED before a ballot draft is circulated for voting.

Action:	Staff
	Board Advisor Group
	Board Members

Reissue of IFRS-Equivalent Pronouncements

Agenda Item 7

The Board noted it will be revising the 'look and feel' of its Standards and Interpretations that incorporate IFRSs, using the IFRSs as the source documents, with minimal change. As a result, the application paragraphs identifying who should be applying the Standards and Interpretations will be moved to a separate Standard, and the effective date will be moved to the same location as in the corresponding IFRS, such as an appendix.

The Board decided to include in the reissued AASB 7 *Financial Instruments: Disclosures* the ability to provide specified information by cross-reference, as permitted by the IASB, which was decided by the Board at its February 2015 meeting.

The Board plans to vote on the reissued pronouncements by the end of June.

Action:	Staff
	Board members

Process for Consultation on AASB Work Plan

Agenda Item 8

The Board discussed its process for consultation on the AASB work plan and decided to undertake a formal consultation process later in 2015, in conjunction with the expected IASB Agenda Consultation.



Research Update

Agenda Item 9

The Board concurred with the draft research strategy that identified four key areas: the Australian financial reporting framework; conceptual framework; IFRS post-implementation review; and enhancing the AASB's international alliances.

The Board considered whether there remains a need to address the reporting of administered items in the public sector as a separate topic and asked staff to undertake outreach in this respect.

The Board decided that, following the above outreach, the strategy should be publicised on the AASB website to gain feedback regarding the key areas and major steps to be taken.

Action: Staff

Regulatory Update

Agenda Item 10

The Board noted the publication of a report sponsored by the G100 on discount rates for Australian employee benefit liability valuation that would provide entities with a high-quality corporate bond rate yield curve.

Australian Financial Reporting Framework

Agenda Item 11

The Board supported the project to reconsider the Australian financial reporting framework in terms of which entities should prepare general purpose financial statements and the content of those financial statements. The overall aim of the project is to clarify and simplify the financial reporting framework, so that objective criteria determine the entities required to prepare general purpose financial statements. The project will cover both corporate and non-corporate entities, in conjunction with government policymakers and regulators.

The Board noted the project plan, which encompasses the work to reconsider the reduced disclosure requirements for Tier 2 entities (see agenda item 12) and raises the possibility of a third tier of reporting requirements.

Board members noted that the timing of the various phases of the project was not yet certain, and made suggestions for liaison opportunities additional to those included in the project plan. No specific decisions were made.

Action: Staff



Reduced Disclosure Requirements (Tier 2)

Agenda Item 12

The Board tentatively decided that there is a need to change the existing RDR principles, given feedback on the take-up of RDR and the challenges in implementing the principles. The Board discussed proposed replacement principles for determining RDR, their use and how they might be improved. The Board noted that, in the context of identifying disclosures that satisfy user needs, the following disclosures are likely to be relevant for all types of users:

- (a) financial performance, financial position and cash flows [this could be achieved by presenting the relevant statements];
- (b) liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) [could be achieved by providing information about short-term cash flows and obligations, debt repayment terms, commitments and contingencies, whether or not recognised as liabilities, including tax obligations]. In a NFP entity, the emphasis for liquidity disclosures is more likely to be on funding than debt levels;
- (c) the entity's accounting policy choices and any changes in those policies;
- (d) transactions and other events that are significant to the entity in its operations, including subsequent events that significantly affect assessments of future cash flows; and
- (e) risks to which the entity is exposed (for example, related party transactions, assets used as security for debt, impairments and estimates and judgements).

The Board also noted that accountability should be incorporated as a key disclosure area. The Board tentatively decided that some general principles should be developed to precede the key disclosure areas.

The Board tentatively decided that the key principles and key disclosure areas should be combined with relevant specified disclosures. Application of the principles and specified disclosures should be subject to materiality considerations.

The Board decided that the methodology used should be sufficiently flexible to accommodate the deletion for Tier 2 entities of disclosures required of Tier 1 entities and any future decisions by the Board to rewrite disclosure requirements for Tier 2 entities. The Board considered it was premature for it to determine the basis on which this would be achieved.

The Board decided that, in future, an ED proposing RDR requirements for a new standard will be based on the final International Financial Reporting Standard, rather than the ED preceding the Standard.

The Board decided to progress the RDR project as a joint project with the New Zealand Accounting Standards Board, noting the policy requirement of the *Joint Statement of Intent: Single Economic Market Outcomes* signed by the Prime Ministers of Australia and New Zealand.

The Board will continue its discussions at a future AASB meeting.



Action: Staff

International Projects Update

Agenda Item 13

The Board received an update on recent international meetings held by the IASB, IPSASB, IFRS Interpretations Committee, Revenue TRG and the Impairment ITG. The Board decided that there were no issues to raise at this stage in relation to these meetings.

IASB Exposure Draft ED/2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)*

The Board tentatively decided to express general agreement with the IASB Exposure Draft ED/2015/2 *Effective Date of IFRS 15 (Proposed amendments to IFRS 15)* [incorporated into AASB ED 263] proposal to extend the effective date of IFRS 15 *Revenue from Contracts with Customers*, particularly for entities that have complex transactions.

However, the Board also tentatively decided to express concerns that amending the effective date, which was established after careful consideration and consultation with its constituents, may undermine the IASB's due process. The Board also noted that this could set a precedent for constituents seeking amendments to effective dates of other Standards that may be considered difficult to implement.

The Board decided to finalise its submission to the IASB on ED/2015/2 out of session via the Chair.

Action: Staff

International Valuation Standards Council Exposure Draft

Agenda Item 16

The Board decided to make a submission to the IVSC in relation to Exposure Draft ED *Proposed Amendments to the International Valuation Standards*.

The Board agreed the submission will be finalised through the Chair.

Action: Staff
Chair

Calibrating the Value and Impairment of Intangible Assets

Agenda Item 18

Researchers Baljit Sidhu and John Roberts from the University of New South Wales attended the meeting to discuss an academic research project they are undertaking on brand valuation and impairment. The researchers sought input from Board Members regarding the measurement and impairment of intangible assets.



Aspects of the research align to the AASB's research strategy in that it relates to an IASB longer-term project on intangible assets / R&D activities. In addition, the research may inform thoughts relating to the IASB short/medium term research project relating to goodwill.

Close of Meeting

The Chair closed the meeting at 12.10 p.m. on Thursday 28 May 2015.

Approval

Signed by the Chair as a correct record
this eighth day of July 2015

Appendix

May 2015 AASB Meeting Agenda Papers

1-2	Minutes, Declarations of Interest and Chairman's Report
1.1	Memorandum from Lisa Panetta dated 12 May 2015 re Voting Summary [BOARD ONLY]
1.2	Draft Minutes of meeting 144 dated 15 April 2015 [BOARD ONLY]
3	Reporting Service Performance Information
3.1	Memorandum from Joanna Spencer dated 30 April 2015 re Reporting Service Performance Information
3.2	Draft ED 2XX <i>Reporting Service Performance Information</i>
4	Classification of Liabilities
4.1	Memorandum from Lisa Panetta and Ahmad Hamidi dated 12 May 2015 re ED 259 <i>Classification of Liabilities</i> (proposed amendments to AASB 101)
4.2	ED/2015/1 <i>Classification of Liabilities</i> (Proposed amendments to IAS 1) - AASB Staff Preliminary View
4.3	Staff Issues Paper – ED 259 <i>Classification of Liabilities</i> (Proposed amendments to AASB 101) Summary of Submission and Outreach Comments
4.4	Comment letters on ED 259 [subs 1-4]
4.5	ED 259 <i>Classification of Liabilities</i> (Proposed amendments to AASB 101)
5	Recognition of Residual Value for Infrastructure Assets
5.1	Memorandum from Evelyn Ling and Mitchell Bryce dated 12 May 2015 re Recognition of Residual Value for Infrastructure Assets
5.2	Staff Issues Paper – Staff Collation and Analysis of Comment Letters
5.3	Comment letters received on the Tentative Agenda Decision [subs 1- 17]
6	DRC as a Measure of Value in Use
6.1	Memorandum from Ahmad Hamidi dated 12 May 2015 re Depreciated Replacement Cost as a Measure of Value in Use
6.2	Staff Issues Paper – Clarifying the Use of Depreciated Replacement Cost as a Measure of Value in Use
7	Reissue of IFRS-Equivalent Pronouncements
7.1	Memorandum from Clark Anstis dated 12 May 2015 re Reissue of IFRS-Equivalent Pronouncements
7.2	Staff issues paper re Reissue of IFRS-Equivalent Pronouncements
8	Agenda Consultation process [no agenda papers]
9	Research Update
9.1	Memorandum from Angus Thomson dated 11 May 2015 re Research Strategy
9.2	Draft AASB Research Strategy – prepared May 2015
9.3	Draft AASB Strategy 2015 – 2017 [BOARD ONLY]
10	ASIC Update [no agenda papers]



1-2	Minutes, Declarations of Interest and Chairman's Report
11	Australian Financial Reporting Framework
11.1	Memorandum from Clark Anstis dated 12 May 2015 re Australian Financial Reporting Framework
11.2	Australian Financial Reporting Framework – AASB Project Plan (May 2015)
12	Reduced Disclosure Requirements (Tier 2)
12.1	Memorandum from Vanessa Sealy-Fisher (NZASB) and Mark Shying dated 12 May 2015 re Reduced Disclosure Requirements
12.2	AASB/NZASB staff issues paper: Reduced Disclosure Requirements – Proposed Principles
12.3	AASB/NZASB staff issues paper: Reduced Disclosure Requirements – Method of Communicating RDR
13	International Projects Update
13.1	Memorandum from Kala Kandiah dated 12 May 2015 re International projects
13.2	Staff issues paper: Key issues arising from recent international meetings (to be tabled, if needed)
13.3A	<i>IASB Update</i> March 2015
13.3B	<i>IASB Update</i> April 2015
13.3C	<i>IASB Update</i> May 2015
13.4A	<i>IFRIC Update</i> March 2015
13.4B	<i>IFRIC Update</i> May 2015 (to be tabled)
13.5	Deloitte <i>Clearly IFRS: TRG Revenue Recognition</i>
13.6	Deloitte <i>IFRS in Focus: IFRS Transition Resource Group Impairment</i>
13.7A	March 2015 IPSASB Meeting Highlights
13.7B	NZ Report IPSASB March 2015
13.8	ED 263 Effective Date of AASB 15 <i>Revenue from Contracts with Customers</i>
13.8.1	Staff Issues Paper IASB Exposure Draft on Effective Date of IFRS 15
14	Communications & Work plan
14.1	AASB Standard Setting Work Program and Meeting Pipeline as at 12 May 2015 [BOARD ONLY]
14.2	Memorandum from David Ji dated 12 May 2015 re May 2015 Stakeholder Liaison and Communications Report Highlights [BOARD ONLY]
14.3	<i>AASB Stakeholder Liaison and Communications Report</i> 3 April 2015 – 12 May 2015 [BOARD ONLY] [for information only]
15	Other Business
15.1	Memorandum from Lisa Panetta dated 12 May 2015 re AASB Board Advisor Groups [BOARD ONLY]
16	Emerging Issues
16.1	Memorandum from Evelyn Ling dated 12 May 2015 re IVSC ED <i>Proposed Amendments to the</i>



1-2	Minutes, Declarations of Interest and Chairman's Report
	<i>International Valuation Standards</i>
17	Review
18	Calibrating the value and impairment of intangible assets: The case of brands
18.1	Memorandum from Nikole Gyles dated 12 May 2015 re Calibrating the value and impairment of intangible assets: The case of brands
18.2	PPT Slides [BOARD ONLY]
App A	Other Business
A	Submissions
A1	ED 254 [sub 4]
A2	ED 257 [sub 1]
A3	ED 258 [subs 2-8]
A4	Letter from AASB Chair to IASB Chairman dated 17 April 2015 re IASB Exposure Draft ED/2014/6 <i>Disclosure Initiative</i> (Proposed Amendments to IAS 7)
B	Correspondence
B.1	Letter from Alan Greenslade, Department of Finance to Kris Peach, AASB Chair dated 15 May 2015 re Reduced Disclosure Requirements (RDR) under Australian Accounting Standard