Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the 111th meeting of the AASB
Venue:	Ken Spencer Room, AASB offices
	Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 1 September 2010 from 8:30 a.m. to 5:00 p.m.
	Thursday 2 September 2010 from 8:30 a.m. to 2:15 p.m.

All agenda items except item 1, 2 and 19 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Glenn Appleyard Victor Clarke Sue Highland Mark Jenkin Ian McPhee John O'Grady (Day 2 via telephone) Frank Palmer Kris Peach Joanna Perry (Day1 until 1:30 pm) Bruce Porter Brett Rix Robert Williams
Apologies	Joanna Perry (Day 2)
In Attendance Staff	 Clark Anstis (in part) Dean Arden (in part) Natalie Batsakis (in part) Mischa Ginns Ahmad Hamidi (in part) Robert Keys Jessica Lion (in part) Christina Ng (in part via teleconference) Emma O'Brien (in part) Latif Oylan (in part) Jim Paul (in part) Siva Sivanantham (in part) Angus Thomson Raymond Yu (in part)

Apologies, Agenda, Minutes, Matters Arising from Minutes 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.

Minutes

The Board approved the minutes of the one hundred and tenth meeting held on 29-30 July 2010.

Chairman's Report

Agenda Item 2

The AASB chairman advised AASB members that:

(a) the IASB Discussion Forum, held on 26 August 2010 in the AASB Boardroom, was a valuable event;

(b) Sir David Tweedie and Warren McGregor would be visiting the AASB on the morning of 6 September 2010 and members are welcome to attend the discussion in person or by telephone; and

(c) there are several standard setters meetings being held in September, in particular the World Standard Setters meeting in London, the National Standard Setters meeting in Rome and the Asian Oceanian Standard Setters Group meeting in Tokyo.

Superannuation Plans and Approved Deposit Funds

Agenda item 3

The Board had before it:

(a) a memorandum from Dean Ardern dated 19 August 2010 (Agenda paper 3.1);

(b) an issues paper discussing alternative approaches for facilitating the disclosure of segregated financial information by a superannuation plan or approved deposit fund (Agenda paper 3.2);

(c) an issues paper discussing a number of 'sweep' issues identified by staff in preparing the draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 3.3);

(d) an issues paper considering whether the Board should re-expose for public comment some or all of its revisions to the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 3.4);

(e) a draft version of a Regulation Impact Statement titled *Enhancing the Quality of Financial Reporting by Superannuation Plans and Approved Deposit Funds* (Agenda paper 3.5);

(f) a revised proposed timetable for completion of a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 3.6); and

(g) a copy of a letter dated 30 August 2010 to the Chairman of the AASB from Mr David Coogan of PricewaterhouseCoopers providing an update on industry feedback on ED 179 (tabled Agenda paper 3.7).

The Board considered Agenda paper 3.2 and tentatively decided that the replacement Standard for AAS 25 should:

(a) require a superannuation plan or approved deposit fund (ADF) to provide disaggregated financial disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*; and

(b) explain why plans and ADFs should be required to report disaggregated information in accordance with the principles and requirements in AASB 8.

The Board also decided to consider whether superannuation-specific guidance might be necessary to facilitate a plan or ADF applying the principles and requirements in AASB 8. To this end, the Board directed staff to develop example disclosures for a plan based on the principles and requirements in AASB 8 for the Board's consideration at a future meeting.

The Board considered Agenda paper 3.3 and tentatively decided that the replacement Standard for AAS 25 should:

(a) deem a trustee company to be a related party of its plan or ADF, primarily because trustees have the ability to affect the financing and operating policies of their plans and ADFs, notwithstanding that trustees do not account for plans or ADFs as subsidiaries or associates. In addition, the Board noted that:

  (i) an individual trustee would fall within the definition of key management personnel (KMP) in AASB 124 *Related Party Disclosures*; and

  (ii) the likely resolution of the KMP 'individual versus entity' debate should clarify the related party status of corporate trustees of plans and ADFs under AASB 124;

(b) consistent with the proposals in ED 179 [but contrary to the proposals in ED 195 *Defined Benefit Plans (proposed amendments to IAS 19)*], not require a plan to disclose the present value of any obligations for defined benefit members' accrued benefits, adjusted to exclude future salary growth ('accumulated benefit obligation') because it is inconsistent with:

  (i) the measurement approaches under AASB 119 *Employee Benefits*, which presumes that employers will honour their defined benefit obligations in full;

  (ii) the general practice among Australian employers to honour defined benefit obligations in full; and

  (iii) current and proposed approaches for measuring similar liabilities under Australian Accounting Standards, such as provisions and insurance obligations.

The Board also noted that the accumulated benefit obligation measure is not typically used in the Australian market and its disclosure is unlikely to be considered useful information for decision making by users of the financial statements of plans;

(c) consistent with the proposals in ED 179, require a plan to disclose information in relation to the actuarial risks arising from any obligations for defined benefit members' accrued benefits. However, consistent with the Board's decisions with respect to its response to the IASB's Exposure Draft ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*, the Board tentatively decided to retain the disclosure proposals in ED 179 in respect of actuarial risks to the extent that they do not prevent a plan meeting the ED/2010/7 proposed disclosure requirements by providing sensitivity analyses in relation to each significant actuarial assumption;

(d) not provide special guidance on materiality in respect of the measurement of defined benefit obligations to facilitate plans meeting their reporting deadlines. The Board noted that such guidance would:

  (i) be contrary to the Board's transaction-neutrality policy; and

  (ii) arguably need to be rules-based, which is contrary to the approach in AASB 1031 *Materiality*.

The Board also noted that AASB 119 does not prohibit an entity to use particular estimates, averages or computational shortcuts in measuring its defined benefit obligations. Accordingly, under the replacement Standard for AAS 25, a plan would be permitted to use any estimates, averages or shortcuts it (and its auditor) considers appropriate (including, but not limited to, the shortcuts used by employer sponsors under AASB 119) in meeting the plan's financial reporting obligations, provided that the amount calculated using the short-hand techniques is not materially different from the amount at which the plan would have otherwise measured the obligations using the comprehensive measurement approach in AASB 119;

(e) consistent with the proposals in ED 179, require a plan with defined benefit members to recognise its obligation for such members' accrued benefits in the statement of financial position;

(f) consistent with the proposals in ED 179, require a plan to measure its obligations for defined benefit members' accrued benefits in accordance with the approach under AASB 119 for defined benefit obligations. In addition, the Board noted that:

  (i) if the Board were to prevent plans adopting different approaches for determining discount rates under AASB 119 it would potentially create a difference between the measurement approach under AASB 119 and the measurement approach under the replacement Standard for AAS 25 for measuring defined benefit obligations, and that this would be inconsistent with the Board's reasons for adopting the measurement approach in AASB 119 for plans under the replacement Standard for AAS 25; and

  (ii) ED 195 proposes to amend AASB 119 to clarify the treatment of superannuation contributions tax in measuring defined benefit obligations, and that the amendments to AASB 119 arising from ED 195 would apply to plans under a replacement Standard for AAS 25;

(g) not permit a plan or ADF to use a cash premiums basis as a shortcut approach to account for particular types of insurance arrangements provided by the plan or ADF. However, the Board noted that AASB 119 permits an entity to use estimates, averages or computational shortcuts in measuring its defined benefit obligations, subject to the short-hand techniques providing a reliable approximation of the defined benefit obligations. Accordingly, under the replacement Standard for AAS 25, a plan could use a cash premiums basis to measure the insurance component of its obligations for defined benefit members' accrued benefits if the measured amount were not materially different from the amount that would otherwise be measured on an expected present value basis; and

(h) in light of the findings of the Review of the Governance, Efficiency, Structure and Operation of Australia's Superannuation System (Cooper Review), discuss in more detail the objectives and limitations of general purpose financial statements as a source of information for superannuation members. To this end, the Board noted that the proposed statement of changes in member benefits would arguably provide a link between the information reported in the financial statements of superannuation entities and the information provided to members in their benefit statements. The Board also decided that staff should develop a communications program aimed at explaining to constituents the purpose of the replacement Standard.

In addition, the Board tentatively decided that a revised version of ED 179 (including the Basis for Conclusions) should be re-exposed and comments sought from constituents on selected proposals in the document.

The Board discussed possible transition arrangements and possible application dates for the replacement Standard for AAS 25 and decided to consider these issues at a future meeting prior to re-exposing the revised version of ED 179. While the Board expressed support for requiring plans and ADFs to apply the replacement Standard retrospectively, the Board noted that such an approach might conflict with the transitional provisions in other Australian Accounting Standards. Accordingly, the Board directed staff to review the transitional provisions in other Australian Accounting Standards to determine the impact, if any, that they might have on plans and ADFs applying the replacement Standard for AAS 25 retrospectively.

Action: AASB staff

Revenue from Contracts with Customers

Agenda Item 5

The Board had before it:

(a) a memorandum from Jessica Lion dated 17 August 2010 (Agenda paper 5.1);

(b) FRSB B3.0 Cover page from 26 August 2010 FRSB meeting (Agenda paper 5.2);

(c) FRSB B3.1 Memorandum from Clive Brodie: Key comments to be raised in FRSB's comment letter on the IASB Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* from 26 August 2010 FRSB meeting (Agenda paper 5.3);

(d) FRSB B3.2 Draft comment letter on the IASB's Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* from 26 August 2010 FRSB meeting (Agenda paper 5.4);

(e) FRSB B3.3 New Zealand Request for Comment on IASB Exposure Draft ED/2010/6 *Revenue from Contracts with Customers* from 26 August 2010 FRSB meeting (Agenda paper 5.5);

(f) FRSB B3.4 Email from AOSSG Revenue Working Group including: (a) minutes of the recent working group meeting in Tokyo and (b) a proposed working group timeline for the second working group meeting (Agenda paper 5.6); and

(g) Exposure Draft Snapshot: *Revenue from Contracts with Customers* (Agenda paper 5.7).

The Board considered a staff paper (Agenda paper 5.1) on issues and key comments to be included in its submission to the IASB in response to ED/2010/6, which is incorporated in AASB ED 198. During its discussion, the Board raised the following key areas of concern:

(a) the notion of transfer of control places too much emphasis on the physical delivery of goods and services. As previously expressed, the Board is of the view that revenue should be focused on the creation and fulfilment of rights and obligations. The ED is unclear about what constitutes a performance obligation and there seems to be a disconnect between performance obligations and the physical transfer of good and services. The Board considers that there should be some weighting of the control indicators listed in paragraph 30 of the ED, otherwise applying the indicators would result in differing interpretations of control;

(b) the proposals result in another measurement basis for liabilities which adds to the many other measurement models applicable for liabilities under IFRSs. It is concerning that additional measurement models are being introduced considering the measurement phase of the conceptual framework project has not yet been finalised; and

(c) the inclusion of credit risk in the measurement of revenue. The Board considers it unclear what the unit of account would be (single contract versus portfolio approach) in the event that credit risk is included in the measurement of revenue. The Board agreed that remeasurement of credit risk should result in an adjustment to revenue, as opposed to the recognition of a gain or loss as proposed in the ED.

The Board also discussed:

(a) that there needs to be some clarification as to what constitutes a contract and whether non-exchange transactions fall under the definition of a contract; and

(b) the concerns raised by the construction industry that the proposals may require the breakdown of a contract into a significant number of performance obligations and could result in a delay of revenue recognition.

The Board noted that staff will be conducting meetings with constituents during the week of 6-10 September 2010 to obtain their views on the ED and that the views of constituents conveyed through the individual meetings and comment letters will be considered by the Board in finalising its submission to the IASB.

The Board decided to establish a sub-committee to review a draft Board submission. The Chairman, Mr. Appleyard, Mr. O'Grady and Mr. Rix agreed to be members of the sub-committee. The key issues to be addressed in the draft Board submission will be considered at the October 2010 joint AASB-FRSB meeting.

Action: AASB staff
Chairman
Mr. Appleyard
Mr. O'Grady
Mr. Rix

Presentation of Financial Statements

Agenda item 6

The Board had before it:

(a) a memorandum from Latif Oylan and Mischa Ginns dated 18 August 2010 (Agenda paper 6.1);

(b) an issues paper on IASB ED/2010/5 *Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)* which is incorporated in AASB ED 197 (Agenda item 6.2);

(c) a paper addressing the questions raised by the IASB in ED/2010/5 and AASB staff tentative views (Agenda paper 6.3); and

(d) copies of written submissions received on AASB ED 197 (Agenda paper 6.4).

The Board considered the comments it received from constituents on AASB ED 197 and decided that its submission to the IASB should:

(a) express concern regarding the timing of this ED, considering the IASB has higher priority projects, such as revenue, leases and the fundamental review of financial statement presentation;

(b) express concern that while the ED proposes changes regarding the items that appear in OCI, the ED does not address some of the fundamental issues relating to the presentation of financial performance, in particular:

    (i) presenting items as part of profit or loss or OCI without a clear and consistent meaning having been identified for OCI; and

    (ii) the notion of recycling;

(c) recommend that a conceptual basis for the recognition and measurement of items of OCI be included as part of its Conceptual Framework Project. As part of establishing a conceptual basis, the principles underlying the 'matrix format' considered by the IASB in 2001 and 2002 in the Performance Reporting Project should be reconsidered;

(d) encourage the IASB to address the issues concerning the presentation of items of OCI attributable to discontinued operations and non-current assets (disposal groups) held for sale on the basis that the issue was not addressed as part of the IASB's Annual Improvements Project nor in this ED;

(e) recommend that the title 'Statement of comprehensive income' should not be changed to 'Statement of profit or loss and other comprehensive income' on the basis that it is too long and frequent title changes may cause confusion. There is no need to change the title particularly in view of the proposal to retain the option to use other titles for the statement of comprehensive income;

(f) if the IASB proceeds with the proposals in the ED rather than fundamentally reconsidering its approach, support the proposals to:

  (i) present all items of income and expense recognised in a period in a single statement with two sections – profit or loss and OCI;

  (ii) require entities to present items of OCI that will never be reclassified to profit or loss separately from those that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition; and

  (iii) allocate income tax on items of OCI between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss; and

(g) note, in an appendix, editorial matters identified in the ED.

The Board agreed to finalise the submission out of session through the Chairman and a sub-committee comprising Mr. Palmer, Mr. Porter and Mr. Rix.

Action: AASB Staff
Chairman
Mr. Palmer
Mr. Porter
Mr. Rix

Financial Instruments

Agenda item 8

The Board had before it:

(a) a memorandum dated 18 August 2010 Financial Instruments Update from Christina Ng and Angus Thomson (Agenda paper 8.1);

(b) staff paper on issues and key comments on the IASB Request for Comment on the FASB Exposure Draft *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (Agenda paper 8.2);

(c) AASB submission on ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* (Agenda paper 8.3);

(d) AASB submission on ED/2010/4 *Fair Value Option for Financial Liabilities* (Agenda paper 8.4); and

(e) proposed AASB staff plan for September to October 2010 (Agenda paper 8.5).

The Board considered key comments to be included in its response to the IASB Request for Comment on the FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. The Board decided to express its views on the issues from both a conceptual / technical perspective and a convergence perspective. In that context, the Board:

(a) accepts at this stage the IFRS *9 Financial Instruments* mixed measurement model for financial assets;

(b) supports the FASB's symmetrical accounting for assets and liabilities arising from hybrid instruments and considers that an option to bifurcate should be included in IFRS 9 for hybrid financial assets;

(c) prefers the FASB's approach to identifying and presenting the impact of changes in 'own credit risk' in relation to financial liabilities at fair value;

(d) considers that the FASB's proposal on the re-measurement of demand deposit liabilities should be deferred for consideration by both the FASB and the IASB at a later stage;

(e) considers that questions about the classification of amounts as 'profit or loss' or OCI are dependent on the principles underlying such a distinction, which are yet to be developed. Accordingly, the Board came to the view that those principles should be articulated, to provide a basis for determining the merits of the FASB proposal (that all equity investments should be measured at fair value through profit or loss) compared with the corresponding IFRS 9 provision (which permits an entity at initial recognition to make an irrevocable election to present in OCI subsequent changes in the fair value of an investment in an equity instrument not held for trading); and

(f) compared with the IASB's proposed impairment model for financial assets held at amortised cost, prefers the FASB's model, which uses all available information relating to past events and existing conditions to make an assessment of impairment on an incurred but not reported basis.

The Board decided to finalise its submission to the FASB and the IASB out-of-session.

The Board also received an update on the progress of the IASB's deliberations on comments on ED/2009/12 and its project on hedging activities. The Board noted that:

(a) the IASB observer notes state that most users agree that an impairment model measured using expected loss is an appropriate method, although not necessarily the IASB's expected cash flow approach that was proposed in ED/2009/12. The Board also noted that some users preferred to keep the current effective interest revenue calculation based on contractual terms. Most users also commented on the lack of consideration for non-financial institutions with mostly non-interest bearing financial instruments;

(b) the IASB has tentatively decided to progress with an impairment model using an expected loss approach that is based on lifetime expected losses and under which entities should consider all reasonable and supportable information (including forecasts of future conditions) when calculating expected losses;

(c) in relation to hedge effectiveness tests, the IASB has tentatively agreed that:

    (i) the objective of a hedge effectiveness assessment is to ensure the hedging relationship will produce an unbiased result and minimise expected ineffectiveness;

(ii) the effectiveness assessment is forward looking and is performed at inception and on an ongoing basis;

(iii) the type of effectiveness assessment (quantitative or qualitative) depends on the relevant characteristics of the hedging relationship and on the potential sources of ineffectiveness. The IASB also tentatively agreed that the main source of information for performing the effectiveness assessment is entities' risk management;

(iv) no particular methods for assessing hedge effectiveness would be prescribed, however, the method used should be robust enough to capture the relevant characteristics of the hedging relationship including the sources of ineffectiveness;

(v) if there are new sources of ineffectiveness that were not initially anticipated, or if the hedge effectiveness assessment method previously used is no longer capable of capturing the sources of ineffectiveness, entities should be required to change the method for assessing hedge effectiveness;

(d) in relation to the eligibility of hedged items in a group, the IASB tentatively decided that any hedge designation for accounting purposes must be on the same basis as the entity's risk management strategy; and

(e) the IASB considered whether equity investments that are initially designated at fair value through OCI under IFRS 9 should be eligible for hedge accounting and tentatively decided to propose prohibiting the application of hedge accounting for these equity investments.

Action: AASB staff
AASB members

Interpretations

Agenda item 9

The Board noted the following matters:

(a) the IFRS Interpretations Committee published a draft Interpretation DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine*; and

(b) the IFRS Foundation published a Consultation Document *The annual improvements process: Proposals to amend the Due Process Handbook for the IASB*.

Fair Value Measurement

Agenda item 10

The Board had before it:

(a) a memorandum from Mischa Ginns dated 18 August 2010 (Agenda paper 10.1);

(b) a staff issues paper on IASB ED/20101/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* (Agenda paper 10.2);

(c) AASB ED 199 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements* (Agenda paper 10.3); and

(d) copies of written submissions received on ED 199 (Agenda paper 10.4).

The Board considered key comments to be included in its submission to the IASB in response to ED/2010/7, which is incorporated in AASB ED 199. The Board considered the comments it received from constituents on ED 199 and decided its submission to the IASB should:

(a) disagree with disclosing a measurement uncertainty analysis for fair value measurements categorised within Level 3 of the fair value hierarchy because:

  (i) the proposed requirements could be taken to infer precision that is not attainable or cast unnecessary doubt on the determined value;

  (ii) focusing on discrete ranges of uncertainty may erroneously imply that any amount within that range would be an acceptable measure of fair value; and

  (iii) the proposed extent of disclosure required for a measurement uncertainty analysis will be costly and burdensome for preparers and these costs could conceivably discourage entities from applying fair value options available in IFRSs;

(c) recommend instead that the disclosure principle should:

  (i) focus on the major sources of uncertainty about the inputs used that would have a significant impact on the fair value measurement;

  (ii) require incorporation and disclosure of the effect of correlation between inputs, whether observable or unobservable, where information about inputs alone would otherwise be misleading; and

  (iii) permit but not expressly require the disclosure in the form of a sensitivity analysis;

  The Boards recommendation would be consistent with the proposed disclosures in paragraph 57(g) of ED/2009/5 *Fair Value Measurement* and the disclosures specified by paragraph 27B(e) of IFRS 7 *Financial Instruments: Disclosures*, augmented to incorporate and disclose the effect of correlation between inputs (whether observable or unobservable) where inputs disclosed would otherwise be misleading; and

(d) recommend that either guidance should be provided on the application of the proposed disclosures to non-financial assets, particularly property, plant and equipment, or that non-financial assets other than investment property be excluded from the scope of those disclosure requirements.

Action: AASB staff
AASB members

Employee Benefits – Defined Benefit Plans

Agenda item 11

The Board had before it:

(a) a memorandum from Dean Ardern dated 19 August 2010 (Agenda paper 11.1);

(b) an issues paper discussing the written comments received on ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* and staff proposals in relation to the AASB's response to the IASB's Exposure Draft ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19* (Agenda paper 11.2);

(c) copies of written submissions received on ED 195 *Defined Benefit Plans (proposed amendments to AASB 119)* (Agenda Paper 11.3); and

(d) a copy of an email dated 30 August 2010 from Mr Peter Batten of the Victorian Department of Treasury and Finance (Tabled agenda paper 11.4).

The Board noted that the proposals in ED/2010/3 are ultimately aimed at assisting the IASB in implementing targeted improvements to the recognition, presentation and disclosure of defined benefit plans. Consistent with this, the Board decided that its response to the IASB on ED/2010/3 should note that, if adopted, the proposals should be subject to the IASB's decisions in relation to its Financial Statement Presentation project as well as the next phase of its Post-employment Benefits project.

The Board considered Agenda paper 11.2 and decided that its response to the IASB on ED/2010/3 should express support for the following proposals:

(a) changes in the present value of defined benefit obligations and the fair value of plan assets being recognised when they occur because the approach:
    (i) is consistent with the treatment of remeasurement changes in other IFRSs;
    (ii) would reduce complexity and enhance consistency of reporting for defined benefit plans;
    (iii) would enhance comparability of financial statements between entities and over time; and
    (iv) would enhance the usefulness of financial statements;

(b) unvested past service cost being recognised when the related plan amendment occurs because:
    (i) an amendment to the terms of a plan in such circumstances gives rise to a liability;
    (ii) it is consistent with the proposal to immediately recognise all changes in defined benefit obligations; and
    (iii) it is consistent with the approach under IAS 19 *Employee Benefits* to allocate benefits to periods of service, irrespective of whether the benefits are vested;

(c) disaggregation of defined benefit cost into three components (service cost, finance cost and remeasurements) because the approach would:
    (i) facilitate the provision of more useful information to users, particularly in relation to estimating future costs of defined benefit plans and their impact on an entity's future profits; and
    (ii) improve comparability of financial statements between entities;

(d) exclusion of changes in demographic assumptions from the service cost component because changes in demographic assumptions have a different predictive value from service cost;

(e) a narrative description of any non-routine settlements, curtailments and/or plan amendments. However, consistent with the Board's recommendations regarding the proposed treatment of the remeasurement component in respect of defined benefit plans, the Board's response should recommend that an entity disclose the effect of non-routine settlements, curtailments and/or plan amendments on profit or loss or OCI;

(f) the disclosure objectives in paragraph 125A of ED/2010/3 because they are principles-based and consistent with the disclosure principles applicable to similar items, such as insurance liabilities;

(g) the additional disclosures about participation in multi-employer plans because they will facilitate entities providing useful information to users regarding the entities' potential obligations in respect of such plans;

(h) the updates to the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control because they will facilitate consistent disclosures by entities with similar types of defined benefit plans;

(i) incorporating the requirements in IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* in to IAS 19;

(j) the treatment of tax payable by a defined benefit plan because the proposed approach is principles-based and would facilitate tax payable being treated in a manner that is consistent with its nature;

(k) return on plan assets being reduced by administration costs only if those costs relate to managing plan assets because such an approach would facilitate consistency in the treatment of administration costs;

(l) expected future salary increases being considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years because such an approach would facilitate consistency in the treatment of different types of defined benefit arrangements;

(m) clarifying that mortality assumptions used to determine a defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment (where relevant);

(n) retaining the requirements that permit an entity to account for its interest in a defined benefit multi-employer plan as if it were a defined contribution plan when sufficient information is not available to use defined benefit accounting; and

(o) applying the proposed amendments retrospectively, except in relation to the disclosure proposals for sensitivity analyses.

The Board also decided to express support for the following proposals, but only as interim measures aimed at reducing the complexity and diversity of practices under the current measurement approach in IAS 19 for defined benefit obligations:

(a) the finance cost component comprising net interest on the net defined benefit liability (asset) being determined by applying the discount rate specified in paragraph 78 of IAS 19 to the net defined benefit liability (asset). This is because the approach:

  (i) is consistent with the underlying premise of IAS 19 that an entity is liable for the net obligation (defined benefit 'surplus' or 'deficiency'); and

(ii) facilitates the calculation of interest expense that reflects the net liability (asset) recognised by the entity.

In addition, the Board decided that its response should encourage the IASB to undertake a comprehensive project on discount rates; and

(b) presenting service cost in the profit or loss, net interest on the net defined benefit liability (asset) as part of finance cost in the profit or loss, and remeasurements in OCI. However, the Board also decided that its response should:

(i) note that the absence of a generally accepted principle for determining which items should be presented in OCI potentially undermines any benefits the proposals might provide users in terms of improved information for decision making; and

(ii) recommend that, until the issues around OCI are resolved conceptually, the revised version of IAS 19 should provide an irrevocable option for an entity to present the remeasurement component in profit or loss or in OCI.

The Board decided that its response to the IASB on ED/2010/3 should express disagreement on the following proposals:

(a) recognising gains and losses on settlements as remeasurements in OCI. The Board decided that its submission should recommend that:

(i) gains and losses on routine settlements be recognised in profit or loss; and

(ii) gains and losses on non-routine settlements be presented in profit or loss or in OCI in accordance with the entity's irrevocable choice in respect of remeasurements of its net defined benefit liability (asset);

(b) recognising gains and losses on curtailments and plan amendments in profit or loss. The Board decided that its submission should recommend that an entity present gains and losses on curtailments and plan amendments in profit or loss or in OCI in accordance with the entity's irrevocable choice in respect of remeasurements of its net defined benefit liability (asset);

(c) disclosing sensitivity analyses with respect to each significant actuarial assumption. The Board decided that its submission should recommend that the proposals be replaced by a set of comprehensive and integrated disclosure principles that:

(i) are consistent with the disclosure requirements applicable to financial liabilities under IFRS 7 *Financial Instruments: Disclosures*; and

(ii) focus on the major sources of uncertainty about the actuarial assumptions used that would have a significant impact on the measurement of the defined benefit obligations;

(d) disclosing demographic actuarial assumptions. The Board decided that its submission should recommend that the proposed requirement be replaced by a disclosure principle that requires an entity to disclose information about each significant actuarial assumption used to measure its defined benefit liability (asset);

(e) disclosing the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth, because the disclosure of such information would be:

(i) inconsistent with the measurement approach under IAS 19, which presumes that employers will honour their defined benefit obligations in full;

(ii) inconsistent with current and proposed approaches for measuring similar liabilities, such as provisions and insurance liabilities; and

(iii) arguably not justified on cost-benefit grounds as users are unlikely to consider the information useful for decision making;

(f) disclosing information about asset-liability matching strategies. The Board decided that, consistent with its response to the sensitivity analysis proposals, its submission should recommend the proposals in respect of asset-liability strategies be replaced by a disclosure principle that is consistent with the disclosure requirements applicable to financial liabilities under IFRS 7;

(g) disclosing information about factors that could cause contributions to differ from service cost. The Board decided that, consistent with its response to sensitivity analysis proposals, its submission should recommend that the proposed disclosure requirements be replaced by a disclosure principle that is consistent with the disclosure requirements applicable to financial liabilities under IFRS 7; and

(h) requiring obligations that are currently described as ‘other long-term employee benefits’, including obligations for long-service leave and annual leave benefits not expected to be settled within twelve months, to be accounted for on the same basis as defined benefit plans. The Board decided that its submission should recommend the IASB retain the current requirements in respect of other long-term employee benefits, at least until a fundamental project to revise IAS 19 is undertaken, because the proposals:

(i) would result in an increase (rather than reduction) in the complexity and diversity of practices under IAS 19;

(ii) would not facilitate improvements in the transparency and comparability of reported information;

(iii) would impose significant costs on some entities; and

(iv) are arguably not justified on the basis of users’ needs.

The Board also decided that its response should recommend that, if the proposals in respect of other long-term employee benefits are adopted, the revised version of IAS 19 should provide entities with an irrevocable option to present remeasurement components in relation to other long-term employee benefits in profit or loss or in OCI.

The Board decided that its response to the IASB on ED/2010/3 it should:

(a) not make any comments in relation to:

(i) the proposed definition of minimum funding requirement; and

(ii) the proposals in relation to risk-sharing and conditional indexation features; and

(b) incorporate the written comments received from respondents on ED 195 on the:

(i) proposed measurement approach for the current portion of long-term employee benefits;

(ii) drafting of the proposals in respect of short-term and long-term employee benefits;

(iii) proposal to delete the definition of 'vested' employee benefits;

(iv) definition of fair value in the ED;

(v) presentation of Example 6 in the Illustrative Examples to the ED; and

(vi) location of some of the paragraphs within the ED.

The Board also decided to give further consideration to the implications of the proposals for public sector entities that participate in plans that share risks between entities under common control to disclose information in accordance with paragraphs 125A-125K of ED/2010/3. To this end, the Board directed staff to consult with constituents in the public sector and prepare an issues paper to be considered at a future Board meeting.

Action: AASB staff

Policy Statement

Agenda Item 13

The Board had before it

(a) a memorandum from Joanna Spencer dated 18 August 2010 (Agenda paper 13.1);

(b) draft Statement *AASB Policies and Processes* (Agenda paper 13.2);

(c) a memorandum from Ahmad-Hamidi dated 16 August 2010 (Agenda paper 13.3); and

(d) Principles Used in Developing RDR Disclosures (Agenda paper 13.3.1).

The Board considered Agenda item 13.2 and decided that:

(a) the content of the document should be as 'timeless' as feasible to avoid the need for frequent changes;

(b) the document should be re-structured around the key strategies (including placing the information about strategy earlier in the document), and the strategies should include developing international relationships, including with New Zealand;

(c) a section should be added dealing with the criteria used for determining whether to re-expose changes to Standards (based on the IASB's criteria);

(d) a brief section should be added dealing with the Board's process for identifying disclosures for Tier 2 (Reduced Disclosure Requirements) with a link to the more detailed process regarding Tier 2;

(e) the recent changes to the law regarding the FRC's duties and responsibilities should be reviewed to ensure the document reflects them appropriately;

(f) rather than making a statement about the two FRC strategic directions to the AASB (paragraph 7), incorporate reference to each in the relevant sections on the use of IFRSs and GAAP/GFS harmonisation;

(g) in the background section on Standards (paragraphs 9 to 16), add information about the materials that are integral to the Standards (for example, some guidance) and materials that accompany the Standards (for example, Bases for Conclusions);

(h) rather than referring to "accepts that an IFRS is of a high quality …" [paragraph 26(a)], refer to the need for Tier 1 for-profit entities to remain IFRS compliant being in the best interests of the Australian economy;

(i) consideration be given to integrating the information on focus groups Panels and consultative groups [paragraphs 32(b) and (c)] into one paragraph; and

(j) the wording on publicly expressed views should be simplified (paragraph 46).

The Board discussed whether to delay finalising the document until the new standard setting structure in New Zealand is settled, but agreed not to wait as there will always be emerging developments and the document can be amended if necessary.

The Board discussed whether to include information regarding the hierarchy of requirements under Standards and Interpretations and other materials, and agreed that this would not be appropriate in the context of this document.

It was agreed that a revised draft would be circulated to all members with a view to focusing on key issues.

The Board considered staff recommendations in Agenda paper 13.3.1 relating to the process of developing RDR (Tier 2) proposals for new and revised Standards and decided that:

(a) the principles used in determining Tier 2 proposed disclosures as set out in Appendix (c) of ED 192 *Revised Differential Reporting Framework* should continue to be used in determining the Tier 2 disclosures relating to new or revised Standards;

(b) the analysis and drafting of proposed disclosures for Tier 2 should begin as soon as the drafting of a Tier 1 ED reaches a stage where the proposed disclosures under the ED are not expected to undergo any material changes. The process of determining proposed disclosures for Tier 2 should be planned and managed in a manner to ensure the exposure of the proposed Tier 2 disclosures as part of each Tier 1 ED or soon afterwards;

(c) Tier 2 proposals should involve the following:

    (i) the analysis of proposed disclosures in an IASB ED using the principles referred to in (a) above. The analysis should include, where relevant, a comparison of proposed disclosures under the Tier 1 ED and disclosures under the *IFRS for SMEs* and should provide reasoning, based on these principles, in relation to the exclusion, retention or addition of disclosures for Tier 2 purposes;

    (ii) identification of disclosures to be excluded from the Tier 2 and any RDR paragraphs to be included in Tier 2; and

    (iii) using the shading tool to depict the disclosures that the AASB proposes to be excluded from Tier 2;

the proposals comprising the three parts above form one document that would be attached to a Tier 1 ED or exposed as part of a separate consultative document issued shortly after the Tier 1 ED;

(d) the Chairman has the discretion to seek to have the draft Tier 2 disclosure proposals reviewed by a Subcommittee of the Board (if relatively straight forward) or by all Board members;

(e) a new standard section should be included in the Preface to each AASB ED (including those that incorporate an IASB ED) informing readers about the introduction of Tier 2 into the Australian reporting environment and the process that will be used to seek comment on Tier 2 disclosure proposals;

(f) the document that exposes Tier 2 proposals should state that the proposed retention or exclusion from Tier 2 of a disclosure proposed in an IASB ED is not an indication of the AASB's support or otherwise of the IASB's proposal; and

(g) Tier 2 requirements should be maintained on a continuous basis, rather than waiting for the IASB to update its *IFRS for SMEs*. However, on each periodic review of the *IFRS for SMEs* by the IASB, the AASB would consider its effect on Tier 2 requirements.

The Board approved the wording to be included in the Policy Statement *AASB Policies and Processes* which is provided in Attachment A.

Action: AASB staff
AASB members

Related Party Disclosures for NFP public sector entities

Agenda item 14

The Board had before it:

(a) a memorandum from Raymond Yu dated 16 August 2010 (Agenda paper 14.1); and

(b) Issues Paper *Related Party Disclosures in the Not-for-Profit Public Sector* (Agenda paper 14.2).

The Board decided that, in relation to providing an FRSB-equivalent exemption for entities in Australia, any exemption should extend to all Ministers (i.e. portfolio and non-portfolio Ministers). Therefore, AASB staff should undertake further research into whether principles in AASB 124 *Related Party Disclosures* would result in the non-disclosure of routine related party transactions involving all Ministers. The Board requested that AASB staff investigate the following options:

(a) the possibility of exempting entities from disclosing certain routine related party transactions with all Ministers; or

(b) further clarification of the principles in AASB 124 with regard to not-for-profit (NFP) public sector entities.

In relation to the application of key management personnel (KMP) compensation requirements to NFP public sector entities, the Board decided not to amend the definition of KMP for NFP public sector entities and the rationale for this should be detailed in the Basis for Conclusions of an eventual exposure draft.

Action: AASB staff

Insurance Contracts

Agenda item 15

The Board had before it:

(a) a memorandum from Dean Ardern and Angus Thomson dated 13 August 2010 (Agenda paper 15.1); and

(b) a paper outlining the main proposals in the IASB's Exposure Draft ED/2010/8 *Insurance Contracts* and comparing these proposals to the corresponding requirements in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* (Agenda paper 15.2).

The Board considered Agenda paper 15.1 and noted that:

(a) comments on the AASB ED 201 are due by 8 November 2010 and comments on the IASB ED/2010/8 are due by 30 November 2010;

(b) in light of the similarities between the current Australian and New Zealand Accounting Standards on insurance contracts, the FRSB has decided that the AASB should coordinate the development of both Boards' responses to ED/2010/8. The FRSB is seeking comments from New Zealand constituents by 26 October 2010;

(c) AASB staff had recently attended roundtable discussions on ED/2010/8 and were arranging AASB roundtable discussions to be held on 29 October 2010 in Sydney, Melbourne and New Zealand (via videoconference);

(d) AASB staff intend to discuss the disclosure proposals in ED/2010/8 with captive insurers and users of their financial statements to determine whether reduced disclosure requirements might be appropriate for them and, if so, the disclosures proposed in ED/2010/8 from which they might be exempted. This is on the basis that the Board concluded in AASB 1053 *Application of Tiers of Australian Accounting Standards* that insurers would generally be publicly accountable (and subject to Tier 1 reporting), but that it may be appropriate to permit at least some captive insurers to apply Tier 2 requirements;

(e) at the joint AASB/FRSB meeting on 27-28 October 2010, AASB staff will present an issues paper incorporating constituent feedback that will highlight issues that staff consider should be addressed in the Boards' submissions to the IASB. In addition, staff intend to prepare draft submissions based on the discussions at the joint meeting and have them finalised out-of-session either through all members of each Board or through subcommittees; and

(f) the issues and comments that emerge from developing the AASB's and FRSB's submissions on ED/2010/8 will be provided to the AOSSG Insurance Contracts Working Group, of which Australia and New Zealand are members.

The Board considered Agenda paper 15.2 and noted that the current requirements in AASB 1023, AASB 1038 and the corresponding New Zealand GAAP are broadly consistent with the proposals in ED/2010/8. These proposals include:

(a) insurance contracts other than short-duration contracts being measured on the basis of the obligations and rights under the contract using a comprehensive 'building blocks' approach comprising:
   (i) current estimates of future cash flows;
   (ii) a discount rate that adjusts those cash flows for the time value of money;
   (iii) an explicit risk adjustment; and
   (iv) a residual margin; and
(b) for short-duration contracts, a modified version of the comprehensive measurement approach involving the application of:
   (i) a premium deferral model for pre-claims liabilities; and
   (ii) the building blocks approach for claims liabilities.

The Board also noted a number of differences between the proposals in ED/2010/8 and Australian and New Zealand GAAP, including the proposals for:

(a) the scope of the replacement Standard for IFRS 4 *Insurance Contracts* to:
   (i) exclude fixed-fee service contracts that have as their primary purpose the provision of services but expose the entity to risk because the level of service depends on an uncertain event; and
   (ii) include financial guarantee contracts;
(b) risk adjustments to be measured at the minimum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected. In addition, ED/2010/8 proposes to limit the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation and cost of capital techniques;
(c) risk adjustments to be calculated at the level of a portfolio of insurance contracts (rather than across all portfolios) and, when appropriate, incorporate an adjustment for illiquidity;
(d) a premium deferral model for the pre-claims liabilities to be required (rather than permitted) to apply to some short-duration insurance contracts;
(e) short-duration insurance contracts that are onerous to be measured at the present value of the fulfilment cash flows and the remeasurement change to be recognised as an expense. Accordingly, under the proposals in ED/2010/8, the remeasured amount of a onerous short-duration insurance contract would not include a risk adjustment;
(f) residual margins to be aggregated at a portfolio level, where the portfolio comprises contracts that have similar dates of inception and coverage periods. In addition, ED/2010/8 proposes that residual margins be recognised as income in profit or loss over the coverage period in a systematic way that best reflects the exposure from providing insurance coverage. Accordingly, residual margins would not be subject to remeasurement under the proposals in the ED;
(g) incremental acquisition costs for insurance contracts to be determined on an individual contract basis and be included in the initial measurement of the insurance contract as contract cash outflows. Accordingly, all other acquisition costs would be recognised as expenses when incurred;

(h) requiring (rather than permitting) unbundling of insurance contract components that are not closely related to insurance coverage;
(i) the boundary of an insurance contract to be the point at which the insurer either is no longer required to provide coverage or has the right or the practical ability to reassess the risk of the policyholder and, as a result, can set a price that fully reflects that risk, which may have implications for health insurers in particular;
(j) non-performance risk not to be included in the measurement of expected cash flows;
(k) require an insurer to recognise a gain when the amount ceded by the entity to a reinsurer is less than the expected present value of the reinsured cash flows plus a risk adjustment;
(l) portfolio transfers to be distinguished from business combinations and accounted for on different bases;
(m) summarised margin presentation in the statement of comprehensive income. The proposed presentation approach would highlight the underwriting margin (changes in the risk adjustment and release of the residual margin), experience adjustments (differences between actual and estimated cash flows), changes in estimates and accreted interest on insurance contract liabilities; and
(n) insurers transitioning to the new arrangements to write off any residual margins and existing balances of deferred acquisition costs to retained earnings.

Action: AASB staff

International Valuation Standards

Agenda item 16

The Board had before it:

(a) a memorandum from Natalie Batakis dated 17 August 2010 (Agenda paper 16.1); and
(b) IVSC Exposure Draft *Proposed New International Valuation Standards* (Agenda paper 16.2).

The Board considered key comments to be included in its submission to the International Valuation Standards Board's (IVSB's) ED *Proposed New International Valuation Standards*. In noting that the definition of fair value in IFRSs is different from the definition of fair value in the existing International Valuation Standards, the Board decided that its submission should express support for the IVSB's work in aligning valuation standards with IFRSs.

The Board agreed to submit a comment letter to the IVSB and decided that it should:

(a) suggest that it does not consider it to be the role of the IVSB to define fair value for financial reporting purposes because of the risk of confusion arising from different definitions of fair value; and
(b) encourage the IVSB to assist the IASB and FASB in developing comprehensive guidance for measuring own credit risk in relation to the fair value of liabilities.

The Board agreed to finalise its comment letter out of session through the Chairman.

Action: AASB Staff
Chairman

Emerging issues

Agenda item 17

AASB 101 – parent entity audit fee disclosures

The Board had before it:

(a) a memorandum from Siva Sivanantham dated 12 August 2010 (Agenda paper 17.1); and

(b) extracts from *Corporations Act 2001* [section 295] and *Corporations Regulations 2001* [REG 2M.3.01] (Agenda paper 17.2).

The Board noted that some constituents are uncertain about the applicability of parent entity specific audit fee disclosures in paragraph Aus138.1 of AASB 101 *Presentation of Financial Statements* in light of the recent changes made by the *Corporations Amendment (Corporate Reporting Reform) Act 2010*. The Act allows entities to provide summarised parent entity information in the notes to the consolidated financial statements rather than preparing (full) parent entity financial statements.

The Board agreed that paragraph Aus138.1 of AASB 101 would not apply to parent entity information disclosed in the notes to the consolidated financial statements on the basis that those financial statements are those of the group, not the parent. It was also noted that this issue would be further clarified if the Board proceeds with its audit fee disclosure proposal in AASB ED 200B *Proposed Separate Disclosure Standards*.

Action: AASB staff

IFRS 9 - puttable instruments

The Board had before it:

(a) a memorandum from Christina Ng dated 18 August 2010 (Agenda paper 17.3); and

(b) a letter from Ross Barker and Andrew Porter from the Australian Foundation Investment Company to Joanna Perry dated 21 June 2010 regarding the Basis for Conclusions on IFRS 9 (Agenda paper 17.4).

The Board noted an issue for entities applying AASB 9/IFRS 9 to instruments with a 'contingent puttable feature' that are classified as equity (from the issuer's viewpoint) but are not 'equity instruments' as defined. The Board noted the issue is a result of IFRS 9 not permitting the bifurcation of hybrid financial instruments.

The Board decided to write to the IASB to convey its concerns about the issue, in the context of the IASB's current work on financial instruments.

Action: AASB staff

Leases

The Board had before it a PowerPoint presentation: IASB Exposure Draft *Leases* (Tabled agenda paper).

The Board participated in an education session on the IASB's Exposure Draft ED/2010/9 *Leases*, incorporated in AASB ED 202 *Leases*), including the key changes from the IASB's Discussion Paper DP/2009/1 *Leases Preliminary Views*. The key changes include:

(a) exclusions made to the scope of the proposed leases standard (for example, intangible assets and distinct service components and sales);

(b) lessee accounting and in particular, the accounting for a right of use asset; and

(c) the introduction of lessor accounting requirements, by way of either a performance obligation approach or partial derecognition approach depending upon whether the lessor retains exposure to risks or benefits of the underlying asset either during or subsequent to the expected term of the lease contract.

The Board raised concerns regarding:

(a) the adequacy of guidance provided in relation to determining when a sale occurs;

(b) the requirement for lessors to measure the remaining lease liability by reference to the lessee's usage of the underlying leased asset under the performance obligation approach; and

(c) the prohibition of the remeasurement of the residual asset under the derecognition approach.

The Board agreed that, at the October 2010 meeting, staff would present an issues paper taking into account constituent comments and Board member comments as part of the process for formulating the AASB's submission to the IASB on ED/2010/9.

Action: AASB staff

Proposed Amendments to IFRS 1

The Board noted the IASB's publication of proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which would replace references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. Comments are due to the IASB by 27 October 2010.

Close of Meeting

The Chairman closed the meeting at 2.15 p.m. on Thursday 2 September 2010.

Approval

Signed by the Chairman as a correct record
this twenty seventh day of October 2010.

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ATTACHMENT A

Agenda item 13.3

The following is an example of the appropriate text for inclusion in the new section in the Preface to each AASB ED (including those that incorporate an IASB ED) informing readers about the introduction of Tier 2 into the Australian reporting environment and the process that will be used to seek comment on Tier 2 disclosure proposals:

> Reduced Disclosure Requirements
>
> AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:
>
> (a) Tier 1: Australian Accounting Standards; and
>
> (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.
>
> Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.
>
> Attached are the AASB's RDR disclosure proposals in respect of this ED:
>
> **OR**
>
> A separate consultative document is being issued for comment shortly after the issue of this ED outlining the AASB's RDR disclosure proposals in respect of this ED.

The Board approved the following wording to be included in the Policy Statement *AASB Policies and Processes*:

> The following principles are applied in determining disclosures under Tier 2:
>
> 1. The disclosures proposed under Tier 2 are determined by:
>
>   (a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and
>
>   (b) using the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.
>
> This is further explained below.
>
> ***Approach when recognition and measurement requirements are the same***
>
> 2. Where the disclosure requirements under a full IFRS as adopted in Australia and the *IFRS for SMEs* are the same or similar (that is, result in the same disclosures), those disclosure requirements are retained as part of Tier 2 requirements, using the wording of the relevant full IFRS as adopted in Australia.

3. Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full IFRS, Tier 2 does not retain that disclosure. Furthermore, where the *IFRS for SMEs* is less onerous than the relevant full IFRS, the less onerous disclosure is adopted. This is on the basis that, in developing the *IFRS for SMEs*, the IASB has already applied the user needs and cost benefit considerations and concluded that an exemption or reduced disclosure is appropriate. Although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and not-for-profit (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to not-for-profit entities. In most cases, the structure of the words in the relevant full IFRS enables the use of shading to show that a relevant disclosure is excluded or reduced so as to match the *IFRS for SMEs* disclosure outcome. In the few cases where this is not feasible, the wording in the *IFRS for SMEs* is used as an RDR paragraph.
4. In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure is not included in Tier 2.

Approach when recognition and measurement requirements are not the same

5. The disclosures under Tier 2 are determined by drawing on the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those under the *IFRS for SMEs*.
6. The principles applied by the IASB in developing its *IFRS for SMEs* are grounded in the view that users of financial information of non-publicly accountable for-profit entities are particularly interested in knowing about:
   (a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;
   (b) liquidity and solvency;
   (c) measurement uncertainties;
   (d) the entity’s accounting policy choices;
   (e) disaggregations of amounts presented in the financial statements; and
   (f) transactions and other events and conditions encountered by such entities.

Guidance

7. Guidance relating to a disclosure that is retained in Tier 2 is also retained in Tier 2 on the grounds that it assists entities in making that disclosure and would not add to the disclosure burden. Guidance that relates to a disclosure that is not retained in Tier 2 is also not retained in Tier 2. Text in the nature of contextual material is not treated as guidance. Such text is retained in Tier 2 on the basis that its retention does not add to the disclosure burden.

Disclosure Encouraged

8. Where a disclosure is encouraged, whether under the full IFRSs as adopted in Australia or the *IFRS for SMEs*, it is not included.

Presentation vs Disclosure

9. Tier 2 does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1 and is concerned with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. The following criteria are used to distinguish between presentation and disclosure:

   ‘Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relating to subclassifications or line items to be shown on the face of financial statements, or in the notes, are treated as matters of disclosure.’

Clarification in relation to not-for-profit and public sector entities

10. Paragraphs 3 and 6 are relevant to all types of entities, since the same transactions are generally accounted for in the same manner for all types of entities under the AASB’s policy of transaction neutrality. However, there are a limited number of disclosure requirements in full IFRSs as adopted in Australia specific to the circumstances of not-for-profit and public sector entities. In relation to these disclosures, Tier 2 disclosures are determined by drawing on the principles applied by the IASB in developing its *IFRS for SMEs* in the context of the specific needs of users of not-for-profit and public sector entity financial statements:

    (a) drawing directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

    (b) using the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.