Minutes

Subject:	Minutes of the 99th meeting of the AASB
Venue:	Ken Spencer Room, AASB offices Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 24 June 2009 from 9.00 a.m. to 5.30 p.m. Thursday 25 June 2009 from 8.30 a.m. to 3.10 p.m.

All agenda items except items 1, 2, 11 and 14 were discussed in public.

Attendance

Members	Bruce Porter (Acting Chairman) Glenn Appleyard Victor Clarke Sue Highland Mark Jenkin John O'Grady Kris Peach Joanna Perry (until 1:00 p.m. Day 2) Robert Williams	
Apologies	Ian McPhee Frank Palmer Brett Rix	
In Attendance	Peter Batten IPSASB member (Day 1) (Agenda items 3, 5 & 11)	
	Shane Buggle (Australian Bankers' Association) Rob Goss (Australian Bankers' Association) Doug Niven (Australian Securities and Investments Commission) Rob Sharma (Australian Prudential Regulation Authority)	) Agenda item 11
Staff	Clark Anstis (in part) Dean Arden (in part) Natalie Batsakis (in part) Maybelle Chia (in part) Ahmad Hamidi (in part) Geoff Harris Robert Keys Jessica Lion (in part) Latif Oylan (in part) Chris Pang (in part) Jim Paul (in part) Joanna Spencer (in part) Angus Thomson (in part) 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 confirmed the minutes of the ninety-eighth meeting held on 20-21 May 2009.

Chairman's Report

Agenda Item 2

Members were advised that:

(a) CUMA funding for a project dealing with disclosures by private sector not-for-profit entities has been approved and noted that a project proposal, including an outline of the scope of the project, will be discussed at its July meeting;

(b) the FRC is to hold a special meeting in August to discuss policy issues relating to differential reporting;

(c) the IASB has issued amendments to IFRS 2 *Share-based Payment* and the AASB decided to hold an out-of-session vote to make an Amending Standard.

Income Tax

Agenda Item 3

The Board had before it:

(a) a memorandum from Jessica Lion dated 17 June 2009 (Agenda Paper 3.1); and

(b) AASB ED 178 *Income Tax*, which incorporates IASB ED/2009/2 *Income Tax* (Agenda Paper 3.2).

The Board reviewed Agenda Paper 3.1, which outlines a number of issues for the Board to consider for inclusion in its submission to the IASB. Broadly, the Board decided to recommend to the IASB that a fundamental review of income tax accounting be undertaken, rather than proceed with the proposals in the ED, on the basis that the proposals are too complex, are not a significant improvement on existing requirements and do not achieve US GAAP convergence.

A detailed list of decisions and points raised on the issues in Agenda Paper 3.1 and other related issues is included in Attachment A.

A sub-committee comprising Mr Porter and Ms Peach was formed to work with AASB staff out-of session to prepare a final draft submission for Board approval at the July 2009 meeting. At that meeting the Board will also consider the written submissions on ED 178.

The Board noted that it will need to consider the impact on issues pertaining to Australia once a Standard is finalised. These include tax consolidated groups, substantive enactment of tax legislation and Australian Petroleum Resource Rent Tax, which are currently the subject of AASB Interpretations.

Action: Staff
Mr Porter
Ms Peach
Chairman (incoming)

Differential Reporting

Agenda item 4

The Board had before it:

(a) a memorandum from Ahmad Hamidi and Maybelle Chia dated 16 June 2009 (Agenda paper 4.1);

(b) a memorandum from Ahmad Hamidi 22 June 2009 re a possible future NZ accounting standards framework (Agenda paper 4.1.1);

(c) Financial Reporting Framework Review – Initial ASRB Thoughts (Agenda paper 4.1.2); and

(d) staff paper: Holding Assets in a Fiduciary Capacity: Managed Investment Schemes (Agenda paper 4.2).

The Board tentatively decided that:

(a) the condition in part (b) of the proposed definition of publicly accountable entity, that is, 'holding assets in a fiduciary capacity for a broad group of outsiders', should be applied in Australia; and

(b) the IASB's examples of publicly accountable entities should be supplemented by further examples of the types of entities that would be deemed as publicly accountable under part (b) of the definition in Australia.

Staff were asked to prepare a paper articulating the above decisions for consideration at a future meeting.

NZ tentative thinking about a future accounting standards framework

The Board noted a draft briefing paper prepared for the New Zealand Ministry for Economic Development setting out elements of a possible future differential reporting framework in New Zealand, and discussed the issues relating to accounting standards. The Board was advised that discussion documents on a possible differential reporting framework are expected to be published by the NZ Ministry of Economic Development and NZ ASRB in the near future.

Action: Staff

IPSASB Report

Agenda Item 5

The Board had before it:

(a) a memorandum from Jim Paul dated 16 June 2009 (Agenda paper 5.1); and

(b) a summary report on the IPSASB's February 2009 and May 2009 meetings (Agenda paper 5.2).

The Board noted the summary report and received an oral report on the IPSASB's May 2009 meeting, at which the IPSASB discussed:

(a) its projects on conceptual framework, long-term fiscal sustainability, service concession arrangements, borrowing costs, annual improvements and review of the Cash Basis IPSAS; and

(b) financial reporting issues generated by governments' responses to the global financial crisis.

The Board noted the IPSASB's tentative decisions that:

(a) long-term fiscal sustainability reports should be regarded as a type of general purpose financial report (GPFR); and

(b) it would be unnecessary for each GPFR to include information about long-term fiscal sustainability or for long-term fiscal sustainability reports to be accompanied by general purpose financial statements.

Some Board members expressed concern that the IPSASB's decisions would create a precedent for GPFRs being regarded as incomplete by excluding information that is useful to users for making resource allocation decisions and assessing accountability.

IPSASB's IFRS Convergence Project

Agenda item 6

The Board had before it:

(a) a memorandum from Jim Paul dated 10 June 2009 (Agenda paper 6.1);

(b) a memorandum from Dean Ardern dated 10 June 2009 (Agenda paper 6A.1);

(c) a copy of IPSASB ED 40 *Intangible Assets* (Agenda paper 6A.2);

(d) a memorandum from Jessica Lion dated 10 June 2009 (Agenda paper 6B.1);

(e) a copy of IPSASB ED 36 *Agriculture* (Agenda paper 6B.2);

(f) a memorandum from Natalie Batsakis dated 16 June 2009 (Agenda paper 6C.1);

(g) a copy of IPSASB ED 41 *Entity Combinations from Exchange Transactions* (Agenda paper 6C.2);

(h) a memorandum from Natalie Batsakis dated 16 June 2009 (Agenda paper 6D.1);

(i) a copy of IPSASB ED 37 *Financial Instruments: Presentation* (Agenda paper 6D.2);

(j) a copy of IPSASB ED 38 *Financial Instruments: Recognition and Measurement* (Agenda paper 6D.3);

(k) a copy of IPSASB ED 39 *Financial Instruments: Disclosures* (Agenda paper 6D.4);

(l) a matrix comparison of IPSASB ED 37 and IAS 32 *Financial Instruments: Presentation* (Agenda paper 6D.5.1);

(m) a matrix comparison of IPSASB ED 38 and IAS 39 *Financial Instruments: Recognition and Measurement* (Agenda paper 6D.5.2);

(n) a matrix comparison of IPSASB ED 39 and IFRS 7 *Financial Instruments: Disclosures* (Agenda paper 6D.5.3); and

(o) a matrix comparison of terminology used in IFRS 7, IAS 32 and IAS 39 and IPSASB EDs 37,38 and 39 (Agenda paper 6D.5.4).

ED 36 *Agriculture*

The Board considered IPSASB ED 36 and the issues regarding ED 36 identified in the staff memorandum (Agenda paper 6B.1) and decided that the AASB staff should make a submission on ED 36. The Board agreed with the staff's proposal to express general support for ED 36, and suggested that the submission include the following points:

(a) the proposal to include non-exchange transactions within the definition of 'agricultural activity' is appropriate;

(b) the proposal to exclude the IAS 41 text on government grants relating to biological assets measured at fair value less costs to sell is appropriate;

(c) the text of IAS 41 should not be amended to specifically exclude biological assets held for the supply of services (see paragraph 3(c)), because scope paragraph 2 and the definitions in IAS 41 already exclude them. Biological assets held only for the supply of services are not managed for biological transformation, and therefore do not meet the definition of 'agricultural activity'; and

(d) the proposed definition of 'agricultural activity' in paragraph 8 should read: "… biological assets for sale or distribution, including exchange …", as non-exchange transactions (especially those involving no consideration in return) are not normally considered a 'sale'. Alternatively, the additional words could be 'or transfer': staff should assess which term is more appropriate in the context of other IPSASs.

Action: Staff

EDs 37, 38 & 39 *Financial Instruments: Presentation, Recognition and Measurement, and Disclosures*

The Board considered IPSASB EDs 37, 38 and 39 and the issues regarding those EDs identified in the staff memorandum (Agenda paper 6D.1) and decided that:

(a) it should make a submission on the EDs to the IPSASB;

(b) its comments to the IPSASB should include:

   (i) IPSASs on financial instruments should not be finalised until the completion of the IASB project to replace IAS 39, which contemplates significant changes to the Standard in the short term. If the IPSASB proceeds with EDs 37, 38 and 39, it should explain how it intends to deal with the IASB's changes to IAS 39;

   (ii) all financial guarantees issued for no or nominal consideration and accounted for under the IPSAS equivalent to IAS 39 should, consistent with IAS 39, be measured at fair value. The Board does not support the proposal to measure the financial guarantee contract in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* when fair value cannot be reliably determined;

   (iii) in relation to concessionary loans (loans granted or received by an entity on below-market terms), that:

      - the requirements of the IPSAS equivalent to IAS 39 and IPSAS 23 would not necessarily result in consistent accounting outcomes, and the IPSASB might need to further consider the interaction between the two Standards. The Board noted that it dealt with the issue of concessionary loans as part of its issuance of ED 180 *Income from Non-Exchange Transactions (Taxes and Transfers)*, which proposes requiring financial instruments arising from non-exchange transactions to be accounted for in accordance with AASB 139. The Board noted that, instead, the IPSASB proposes addressing the accounting treatment of concessionary loans as part of the proposed IPSAS equivalent to IAS 39;

- although concessionary loans could arise from 'contributions from owners', the guidance in ED 38 does not acknowledge that. Staff should consider the grant receivable example documented in the NZ FRSB draft submission provided to AASB staff; and
- 'concessionary loans' should be measured consistent with existing IAS 39 requirements at fair value. However, the guidance in paragraphs AG83-AG89 of ED 38 should be reviewed to avoid repetition;

(iv) it is questionable whether the distinction between concessionary loans and waivers of debt is necessary. If such a distinction is retained, then the treatment of waivers of debt needs to be clarified; and

(v) in IPSAS equivalents to IFRSs, such as the three proposed IPSASs on financial instruments, the IPSASB should retain the expression and style used in IFRSs, rather than tailoring them for the public sector (e.g., to use 'surplus/deficit' rather than 'profit/loss'), because they are understandable in a public sector context; and

(c) any editorial suggestions identified should be communicated directly to IPSASB staff rather than included in the Board's submission.

The Board will consider a draft submission on the IPSASB EDs at its July 2009 meeting.

Action: Staff

ED 40 *Intangible Assets*

The Board considered IPSASB ED 40 and the issues regarding ED 40 identified in the staff memorandum (Agenda paper 6A.1) and decided that:

(a) it should make a submission on ED 40 to the IPSASB; and

(b) the submission should:

(i) express support for the proposal that the power to grant rights and the power to tax be scoped out of ED 40, but express disagreement with the inclusion of the assertion in the Basis for Conclusions that both powers are excluded from the scope of the ED because neither satisfies the criteria for recognition as an asset. As the IPSASB has not yet deliberated this issue in its Conceptual Framework project, the Board considers it premature for the IPSASB to make an assertion about the issue. Accordingly, the submission should recommend that the IPSASB clarify in the Basis for Conclusions to ED 40 that the power to grant rights and the power to tax are outside the scope of the Standard, pending consideration in the IPSASB's Conceptual Framework project of whether such powers meet the definition of an asset and might meet the criteria for recognition as an asset;

(ii) highlight the potential inconsistency between the proposal in paragraph 78 of ED 40 that expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets) be recognised as an expense when incurred and the requirement under IPSAS 12 *Inventories* to treat inventory held for distribution in the ordinary course of operations (such as information pamphlets) as an asset. The submission should refer to the example of training pamphlets and recommend the IPSASB removes the potential inconsistency, without recommending how this should be done. However, the submission should note that one way of removing the inconsistency is to adopt the approach outlined by AASB staff in Agenda Paper 6A.1;

(iii) express disagreement with the proposal in paragraph 10 of ED 40 that a public sector entity be permitted but not required to recognise intangible heritage assets that would otherwise meet the definition and recognition criteria of an intangible asset in the ED. The submission should acknowledge that the proposal is consistent with the optional recognition, under IPSAS 17 *Property, Plant and Equipment*, of items of property, plant or equipment that are heritage assets and meet the criteria for recognition as assets, but indicate that such consistency is not a sufficient reason for the Board to support the proposal in ED 40. The submission should recommend that purchased intangible heritage assets that meet the definition and recognition criteria of an intangible asset should initially be recognised at cost and, if those assets are acquired for no or nominal consideration, their cost should be measured at fair value at the date of acquisition;

(iv) not specifically comment on the proposal that revaluation increments and decrements in relation to intangible assets should be offset on an asset-by-asset basis because the Board did not disagree with that proposal. The Board formed this view after noting that it would not be expected that there would be many intangible assets in the public sector that would be eligible for the revaluation model. The Board also directed staff to ascertain how the IPSASB's proposed treatment compares with the ABS GFS Manual;

(v) express disagreement with the proposal that a public sector entity must recognise an intangible item that had previously been expensed and meets the recognition criteria in paragraph 30 of the ED at its cost on initial adoption of the IPSAS developed from ED 40. The Board considers that the costs that would be imposed on entities complying with these proposed transitional requirements would be likely to exceed the benefits to users. Accordingly, the submission should recommend that, irrespective of the approach in IPSAS 17, the transitional provisions be amended to measure an intangible item that had previously been expensed but meets the recognition criteria in the ED at its fair value and use that fair value as its deemed cost at the date of adopting the IPSAS developed from ED 40 when the item's cost cannot be reliably measured or would be impracticable to determine; and

(vi) note that, while the word 'commercial' appears a number of times in ED 40 in relation to development activities, many public sector entities are likely to be involved in development activities that lack a commercial focus. Accordingly, given that ED 40 is in a public sector specific context, the submission should recommend that, where appropriate, the word 'commercial' be replaced by a more apt term or terms, such as 'normal', 'full-scale' or 'on-going'.

A draft Board submission on ED 40 will be considered at the Board's July 2009 meeting.

Action: Staff

ED 41 *Entity Combinations from Exchange Transactions*

The Board considered IPSASB ED 41 and the issues regarding ED 41 identified in the staff memorandum (Agenda paper 6C.1) and decided that:

(a) it should make a submission on the Exposure Draft to the IPSASB; and

(b) to include in its comments to the IPSASB that:

(i) it disagrees with the proposal to limit the scope of the proposed IPSAS to entity combinations from exchange transactions. In this regard the Board:

- recommends including entity combinations from non-exchange transactions within the Standard's scope, and retaining the proposal to adopt the scope exclusion in IFRS 3 *Business Combinations* for combinations of entities or operations under common control; and

- acknowledges that practical issues may arise in identifying entities or operations under common control, but this is a jurisdictional issue;

(ii) it disagrees with replacing 'business' with 'operation' and omitting the definition of 'business'. Instead, the term used in the Standard should be 'business/operation', and that term should be defined in Appendix A;

(iii) it recommends reinstating guidance that was omitted from IFRS 3 on the basis that it rarely would apply to public sector entities, such as the guidance on combinations by contract alone (that is, deleted paragraph 49(c)) and the application guidance for reverse acquisitions, regardless of how rarely such transactions may occur;

(iv) it recommends omitting from paragraph 19 the comment that the power to grant rights and the power to tax do not satisfy the specified criteria for recognition as intangible assets. As the IPSASB has not yet deliberated in its Conceptual Framework project whether such powers meet the definition of an asset and might meet the criteria for recognition as an asset, the AASB considers it premature for the IPSASB to make an assertion about the issue. The Board noted that this comment is consistent with its comment on essentially the same issue in IPSASB ED 40 *Intangible Assets* (see above); and

(v) in paragraph 30, the reference to 'paragraph 28' should be amended to 'paragraph 29'.

The Board will consider a draft submission on ED 41 at its July 2009 meeting.

Action: Staff

GAAP/GFS Harmonisation (Entities within the GGS)

Agenda item 7

The Board had before it:

(a) a memorandum from Robert Keys, Latif Oylan and Chris Pang, dated 10 June 2009 (Agenda paper 7.1);

(b) a summary of discussions at the Roundtables (Agenda paper 7.2);

(c) a summary of discussions with a user of departmental financial statements (Agenda paper 7.3);

(d) a collation of written submissions on ED 174 (Agenda paper 7.4);

(e) written submissions on ED 174 (Agenda paper 7.5);

(f) ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052] (Agenda paper 7.6); and

(g) Supplement to ED 174 Draft Illustrative Example of Financial Statements for Entities within the General Government Sector (Agenda paper 7.7).

The Board first considered the threshold issues [addressed in ED 174's specific matters for comment (g), (h) and (a)] in agenda paper 7.4 and therefore the merits of proceeding with the project, particularly with respect to whether the proposals in ED 174 would provide useful information for users of general purpose financial statements of entities within the GGS.

The Board noted the views of constituents are mixed.

The Board acknowledged that there are potential benefits of harmonising GAAP and GFS for entities within the GGS via the issuance of a common mandatory Standard arising from ED 174, because it could potentially:

(a) increase consistency of general purpose financial reporting between the GGS and entities within the GGS;

(b) increase comparability of the financial statements for entities within the GGS across jurisdictions;

(c) facilitate the consolidation process; and

(d) be useful to users who possess GFS knowledge.

However, the Board was persuaded by the strong views expressed by many constituents that, overall, the proposals would not result in financial statements that would be useful to a range of users (question g); and the proposals are not in the best interests of the Australian economy (question h). The main points noted were as follows:

(a) GAAP/GFS harmonisation for entities within the GGS would not meet the needs of a range of users (e.g. rating agencies, service providers and the general public);

(b) the benefits of GAAP/GFS harmonisation for entities within the GGS do not justify the costs of preparing such information (e.g. training costs and potential costs of changing accounting systems);

(c) domestically and internationally, apart from statisticians, very few people would have sufficient GFS knowledge to understand GAAP/GFS harmonised general purpose financial statements;

(d) the ABS GFS Manual largely focuses on fiscal policy at a macro level and therefore lacks relevance for entities within the GGS;

(e) GAAP/GFS harmonisation moves away from transaction neutrality, resulting in general purpose financial statements for entities within the GGS looking different from those of private sector entities;

(f) information for consolidation purposes could be derived by central agencies through special purpose financial statements or other means;

(g) a certain degree of comparability in the presentation of financial statements of entities within the GGS has been achieved under existing GAAP through the operation of AASB 101 *Presentation of Financial Statements*;

(h) the increased level of comparability that would arise from ED 174 is limited if only the presentation of financial statements reflects GAAP/GFS harmonisation principles, while recognition/measurement principles are not harmonised;

(i) the option of presenting a net cost of services format for the statement of comprehensive income for entities within the GGS, which is appropriate, would mean that comparability would not be achieved in full under ED 174 proposals; and

(j) GAAP/GFS harmonisation for entities within the GGS is not being pursued internationally, and the adoption of ED 174 proposals would be inconsistent with the objective of Australia/New Zealand convergence.

The Board noted that possible alternatives to the approach proposed in ED 174 include the AASB issuing a Standard that specifies requirements:

(a) for presenting GAAP/GFS harmonised information as an ‘alternative’ set of financial statements in the notes to the GAAP general purpose financial statements; or

(b) to be applied only if an entity/jurisdiction elects to present GAAP/GFS harmonised information on the face of general purpose financial statements.

The Board decided against imposing GAAP/GFS harmonisation requirements in the manner proposed in ED 174 on the general purpose financial statements of entities within the GGS. Accordingly, the Board decided it would not be appropriate to progress this project further before consulting with Financial Reporting Council (FRC) members. In doing so, the Board decided to form a sub-committee (Mr. Stevenson, Ms Highland, Ms Peach and Ms Perry) to assist staff in preparing a paper, reflecting its decisions at this meeting, to help facilitate future discussions with FRC members. The Board agreed that the FRC should be informed that the Board's view against imposing GAAP/GFS harmonisation requirements on entities within the GGS is strongly held.

Despite this threshold level decision, consistent with its comprehensive due process, the Board proceeded to consider all the other specific matters for comment raised in the Preface to ED 174 and other issues raised by constituents (except detailed comments about the draft illustrative example, which would be addressed at a future meeting depending on how the project proceeds), on the presumption that the project would proceed.

A detailed list of tentative decisions made by the Board is provided in Attachment B.

Action: Staff
Ms Highland
Ms Peach
Ms Perry
Chairman (incoming)

Policies and Processes

Agenda item 8

The Board had before it:

(a) a memorandum from Geoff Harris dated 10 June 2009 (Agenda paper 8.1); and

(b) draft *AASB Policies and Processes* (Agenda paper 8.2).

The Board decided to:

(a) include information about the composition of the Board in the document;

(b) clarify the explanation of the status of Accounting Interpretations; and

(c) amend and simplify the explanation of the authoritative status of Accounting Interpretations under AASB 1048 *Interpretation and Application of Standards*; and

(d) discuss the draft with the FRC prior to publishing the Statement on the website indicating that it is a developing document that will be amended on an ongoing basis in response to comments from constituents and other developments such as the Board's policies on differential reporting and the Board's Process for Modifying IFRSs for not-for-profit entities.

Action: Staff
Chairman (incoming)

Leases

Agenda item 9

The Board had before it:

(a) a memorandum from Jessica Lion and Raymond Yu dated 16 June 2009 (Agenda paper 9.1);

(b) AASB draft submission to the IASB/FASB (the Boards) in relation to Discussion Paper *Leases – Preliminary Views* (Agenda paper 9.2);

(c) notes from constituent meetings (Agenda paper 9.3); and

(d) written submissions from constituents (Agenda paper 9.4).

The Board expressed overall support for the preliminary views and identified a number of key concerns. A detailed list of decisions and points raised on the issues in Agenda paper 9.2 and other related issues is included in Attachment C.

The Board noted that the proposed lease standard may give rise to GAAP/GFS harmonisation issues based on initial discussions with relevant staff of the Australian Bureau of Statistics.

The Board agreed to finalise the submission out of session through a subcommittee of members comprising Mr Clarke, Mr Jenkin, Mr O'Grady, Mr Porter, and the Chairman.

Action: Staff
Mr Clarke
Mr Jenkin
Mr O'Grady
Mr Porter
Chairman (incoming)

Interpretations

Agenda Item 10

The Board had before it:

(a) a memorandum from Joanna Spencer dated 16 June 2009 (Agenda paper 10.1);

(b) a paper: Interpretation issues in progress (IFRIC and domestic topics as at 16 June 2009) (Agenda paper 10.2);

(c) a memorandum from Joanna Spencer dated 16 June 2009 (Agenda paper 10.3); and

(d) *IFRIC Update* May 2009 (Agenda paper 10.3.1).

The Board reviewed:

(a) the IFRIC's tentative and final agenda decisions from its May meeting and agreed not to comment on any of these issues; and

(b) the Interpretations in progress and asked staff, in conjunction with the NZ FRSB staff, to again contact IASB staff on whether entities can be key management personnel can include entities in accordance with IAS 24 *Related Party Disclosures*. This is particularly relevant to the Board's project on Related Party Disclosures – Managed Investment Schemes (MIS).

Action: Staff

Financial Instruments (Replacement of IAS 39)

Agenda item 11

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 16 June 2009 (Agenda Paper 11.1);

(b) AASB staff feedback to IASB regarding additional meetings held on June 1 and June 5 (Agenda Paper 11.2);

(c) IASB Agenda Paper 5D – May 2009 – Comparison between possible impairment approaches (Agenda Paper 11.3);

(d) ABA – Presentation slides (Agenda Paper 11.4) and

(e) Replacement of IAS 39 – update from IASB June 2009 meeting (Agenda paper 11.5 – tabled).

The Board held an education session with representatives from ASIC, APRA and the Australian Bankers' Association (ABA) to discuss views on various aspects of the IASB's proposal to replace IAS 39, including impairment, classification and measurement and the interaction between prudential requirements and general purpose financial reports.

The Board was provided with an update of the deliberations at the IASB's June 2009 meeting. The Board noted that the proposal to eliminate the bifurcation requirements for host contracts with embedded derivatives may need to be considered in more detail and requested the representatives from the ABA to provide examples of the possible impact the amendments may have on the way existing instruments are accounted for.

In addition, the Board noted the imminent release of the IASB's Exposure Draft on classification and measurement (scheduled to be released in July 2009) and the Request for Information on using an expected loss model for impairment of financial assets (scheduled to be released by the end of June 2009).

Action: Staff

Financial Instruments (Derecognition)

Agenda item 11A

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 16 June 2009 (Agenda Paper 11A.1);

(b) Presentation slides: Derecognition (Agenda Paper 11A.2); and

(c) Exposure Draft ED 177 Derecognition (Proposed Amendments to AASB 139 and AASB 7 (Agenda Paper 11A.3).

The Board received an education session on the IASB's ED/2009/3 *Derecognition (Proposed Amendments to IAS 39 and IFRS 7)* and discussed the impact of the proposals on various types of instruments.

The Board noted that the IASB has requested comments by 31 July 2009 and directed staff to prepare a submission to the IASB noting its preference that the IASB should work more closely with the FASB to harmonise the derecognition requirements. If this is not possible at this stage, the Board tentatively expressed a preference for the Alternative Approach outlined in the ED.

The Board will consider and finalise a submission to the IASB at its July 2009 meeting.

Action: Staff

Corrections to Standards

Agenda item 12

The Board had before it:

(a) a memorandum from Clark Anstis dated 15 June 2009 (Agenda paper 12.1);

(b) a draft amending Standard AASB 2009-X *Amendments to Australian Accounting Standards* – for amendments from 1 January 2009 (Agenda paper 12.2);

(c) a list of IASB correction lists from March 2007 (Agenda paper 12.3);

(d) a list of Australian corrections (Agenda paper 12.4); and

(e) a draft amending Standard AASB 2009-Y *Amendments to Australian Accounting Standards* – for amendments from 1 July 2009 (Agenda paper 12.5).

The Board noted that the corrections were either (i) directly based on IASB corrections to IFRSs since the last corrections Standard had been issued by the AASB in 2007 or (ii) other corrections needed to Australian Standards. The Board decided that the deleted IFRS text presented with draft Standard AASB 2009-X was appropriately excluded from Australian Standards, including paragraph 27A of IFRIC Interpretation 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The Board made Accounting Standard AASB 2009-6 *Amendments to Australian Accounting Standards* on the basis of the draft Standard AASB 2009-X, for application to annual reporting periods beginning on or after 1 January 2009 that end on or after 30 June 2009. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 provided that AASB 101 *Presentation of Financial Statements* (2007) is also applied.

The Board also made Accounting Standard AASB 2009-7 *Amendments to Australian Accounting Standards* on the basis of the draft Standard AASB 2009-Y, for application to annual reporting periods beginning on or after 1 July 2009. Earlier application is permitted for annual reporting periods beginning before 1 July 2009 that end on or after 1 July 2008.

Action: Staff
Acting Chairman

Other Business

Agenda item 13

The Board had before it:

(a) a copy of a letter to Mike Smith, Chair Water Accounting Standards Board, from Jeffrey Lucy, Chair FRC, dated 21 May 2009 re Water Accounting (Agenda paper 13.1);

(b) a letter to Bruce Porter, Acting Chairman AASB, from K E Deeves, dated 21 May 2009 re True and Fair View (Agenda paper 13.2);

(c) the AASB 'pipeline document' (Agenda paper 13.3);

(d) a memorandum from Natalie Batsakis dated 16 June 2009 re credit risk in liability measurement (Agenda paper 13.4.1);

(e) IASB staff paper; Credit Risk in Liability Measurement (Agenda Paper 13.4.2);

(f) AASB Invitation to Comment "Request for Comment on IASB Discussion Paper DP/2009/2 *Credit Risk in Liability Measurement*" (Agenda paper 13.4.3 – tabled);

(g) a memorandum from Geoff Harris dated 15 June 2009 re Management Commentary (Agenda paper 13.5);

(h) an extract from IASB Exposure Draft ED/2009/6 *Management Commentary* [Confidential] (Agenda paper 13.5.1);

(i) AASB submission to the IASB on Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers* (Agenda paper 13.6 – tabled);

(j) written submissions to the AASB on ITC 18 "Request for Comment on IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*" (Agenda papers 13.6.1 to 13.6.3 – tabled); and

(k) *FRSB Alert* (June 2009) (Agenda paper 13.7 – tabled).

The Board noted the correspondence.

Credit Risk in Liability Measurement

The Board noted that the IASB had issued Discussion Paper DP/2009/2 *Credit Risk in Liability Measurement* since the staff agenda papers were provided to the Board. The Board decided to issue an AASB Invitation to Comment which includes the IASB's document and to place it on the AASB's website.

In addition, the Board agreed on a process to consult with constituents in obtaining feedback on this topic in addition to placing the document on the website, by creating a Financial Instruments Project Advisory Panel. The Board requested that Mr Palmer and Mr Rix should be asked to be included in the Panel. Staff were directed to proceed with organising the formation of a Panel.

Management Commentary

The Board noted that the IASB has issued ED/2009/6 *Management Commentary* and invited comments by 1 March 2010. The Board decided to place the IASB ED on the website, requesting comments from constituents by 31 December 2009 for the Board to consider when making a submission to the IASB.

IASB Due Process Documents

The Board decided that due process documents developed by the IASB should be placed on the website as soon as practicable after being issued by the IASB following discussion between the Chairman and staff. The Board indicated its expectation that in applying this policy staff would keep the Board informed of substantive issues identified during the IASB's deliberations in developing the document and that where the proposals in a consultative document are expected to have a significant impact on Australian entities the Board would formally consider them before issuing the document in Australia.

Action: Staff

Review

Agenda item 14

The Board indicated:

(a) that the process of conducting interviews with constituents about the proposals in respect of lease accounting provided valuable feedback and such interviews should be considered as part of any consultation plans, particularly in relation to proposals which are likely to have a significant effect on practice; and

(b) greater attention should be given to the sequencing of items dealt with in education sessions, particularly where constituents are making presentations to the Board.

Acknowledgement

The Board expressed its appreciation for contributions to the Board's activities and the leadership provided by Bruce Porter during his term as Acting Chairman.

Close of Meeting

The Chairman closed the meeting at 3:10 p.m. on Thursday 25 June 2009.

Approval

Signed by the Chairman as a correct record
this twenty-ninth day of July 2009

ATTACHMENT A

Income Tax

Agenda item 3

The Board considered Agenda Paper 3.1 and decided that the Board's submission to the IASB should reflect the following views:

(a) in respect of Issue 1. ***Uncertain tax positions***:

(i) although the proposals seem closer to a fair value approach, it would be preferable not to alter the measurement of uncertain tax positions ahead of the IASB finalising its Liabilities project. At that point uncertainty should be accounted for consistently within the standard on income tax and ideally across standards. However, the Board noted that this is an area of tax that particularly needs updating and concluded that the 'more likely than not' measurement of uncertain tax positions would be acceptable in the interim, with perhaps other pertinent information included in disclosures;

(ii) the proposed method does not achieve US GAAP consistency;

(iii) the ED does not adequately address the 'unit of account' for which uncertainty is measured, given that uncertainty permeates all aspects of income tax accounting, not just in relation to tax positions; and

(iv) if the IASB goes ahead with the proposals in the ED, guidance should be included for derecognition of the tax asset/liability recognised in the statement of financial position that is affected by the uncertainty;

(b) in respect of Issue 2. ***Measurement of deferred tax assuming recovery through sale***:

(i) the overriding principle of the ED needs to be more clearly articulated so that the role of management intent is understandable. As currently drafted, the rule of assuming recovery through sale appears to conflict with the definition of deferred tax and the overriding principle as currently expressed in the ED; and

(ii) the ED does not adequately deal with a dual tax system, i.e. a jurisdiction including both an 'income' and 'capital' tax system. Therefore it is not clear what 'recovery' of the tax basis implies in this situation. The ED should include guidance for circumstances where management intend to recover an asset through both use and sale;

(c) in respect of Issue 3. ***Removal of the initial recognition exemption***:

Although the Board supports in principle the removal of the exemption, the exemption should not be removed in the way proposed because:

(i) the proposals are unnecessarily complex and would not be understandable to many users and preparers;

(ii) the costs would outweigh the benefits in implementing the proposals; and

(iii) the proposals would not lead to a significant change in the outcome.

If the proposals go ahead, the IASB should more clearly explain its rationale for the approach in the Basis for Conclusions;

(d) in respect of Issue 4. ***Removal of the exception regarding investments in subsidiaries, branches, associates and joint ventures***:

The exception should either be removed or retained completely. There is no basis for treating one group of investments differently from others, as the level of complexity exists for both domestic and foreign investments. Also, it can be difficult to distinguish foreign from domestic investments;

(e) in respect of Issue 5. ***Recognition of a valuation allowance***:

This proposal is acceptable, including the use of the 'more likely than not' approach to measurement. However, as noted in (a) above, the Board thinks that uncertainty should be accounted for consistently within the standard on income tax, and ideally across other standards once the Liabilities project is finalised;

(f) in respect of Issue 6*. **Distributed or undistributed tax rate based on expectation***:

The Board agrees with the proposal in the ED, that is, for the rate to be based on management intent;

(g) in respect of Issue 7. ***Removal of the need to perform 'backwards tracing'***:

because there are mixed views among Board members, the Board agreed not to comment on whether it agrees with the proposal. [In drawing this conclusion the Board noted the view of some that there is no conceptual basis for keeping a link between a deferred tax balance and the original source of the tax if the deferred tax balance is regarded as an asset or liability in its own right. In that case, subsequent changes in the tax liability should be recognised as part of continuing operations (e.g. as a result of a tax rate change), in the same way that changes in other types of liabilities are recognised]. However, the Board decided to comment that the proposal is too rules-based and the IASB should seek to apply the most principled-based approach;

(h) in respect of Issue 8. ***Including definitions of tax credit and investment tax credit***:

these definitions should be included in the ED. However, the IASB should also address the accounting for such items, especially as they are also scoped out of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;

(i) in respect of Issue 9*. **Classification of deferred tax as current or non-current***:

the approach taken in the ED is not supported, because the proposal is arguably inconsistent with the ED's proposals relating to backwards tracing, i.e. by removing backwards tracing it implies that once recognised the deferred tax has no further 'link' to the underlying asset. In contrast, this proposal presumes the deferred tax has an ongoing 'link' with the underlying asset. The Board noted a view that the practicability of issues 7 and 9 may differ, but in concept, formed the view that issues 7 and 9 should be resolved consistently. A view was expressed that deferred tax balances should be classified as current/non-current assets or liabilities in their own right having regard to their own cash flows; and

(j) in respect of Issue 10. ***Classification of interest and penalties as income tax as an accounting policy choice***:

The Board agrees with this proposal.

The Board also agreed with the inclusion in the ED of guidance on substantive enactment, but that the existing reference in the ED to the US specific circumstances should be removed because the IASB is developing a global non-jurisdiction specific standard. The Board agreed with the inclusion of guidance for tax consolidated groups.

In addition, the Board decided that its submission should include a comment that if the IASB continues with its proposals on income tax, guidance on what is an income tax should be provided.

ATTACHMENT B

GAAP/GFS Harmonisation (Entities within the GGS)
Agenda Item 7

1. Specific matter for comment (a)
Are the proposals in ED 174 necessary and/or sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users?
In relation to the 'necessary' aspect of the question, the Board noted that it would be necessary to amend Accounting Standards in some way to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS, to provide a basis for consistency in presenting harmonised information. However, the Board concluded that the particular proposals in ED 174 are not necessary and that alternative approaches might be preferable if it were to be concluded that a form of GAAP/GFS harmonisation is appropriate at an entity within the GGS level. Those alternatives include presenting required GAAP/GFS harmonised information in a separate note in the general purpose financial statements, or issuing a Standard that specifies requirements if an entity/jurisdiction elects to present GAAP/GFS harmonised information on the face of financial statements.

The Board addressed the 'sufficient' aspect of the question in the context of the other specific matters for comment.

2. Specific matter for comment (b)
Is it appropriate for the proposals to apply to for-profit entities within the GGS?
The Board decided that it would not be appropriate to apply the proposals to for-profit entities within the GGS, even if the proposals were to be applied to other entities within the GGS, because GAAP/GFS harmonisation would particularly not meet the needs of users of for-profit general purpose financial statements.

3. Specific matter for comment (c)
Should the entities within the GGS be subject to the principle in AASB 1049 "Whole of Government and General Government Sector Financial Reporting" that, where there is a choice in GAAP that aligns with GFS, that choice is mandated?
The Board decided that if the objective of GAAP/GFS harmonisation were to enhance comparability across and within jurisdictions, and to simplify consolidation processes and audit, a recognition/measurement choice in GAAP that aligns with GFS should be mandated. The Board noted that a presentation-only approach would achieve limited harmonisation. The Board considered options of where to locate such a requirement (whether within AASB 1049 or an entity within the GGS specific Standard), but did not make a decision on that issue. However, the Board concluded that it would not be appropriate to include Aus paragraphs in each Standard that contains an option.

4. Specific matter for comment (d)
Is it appropriate to expand the application of paragraphs 15-21 of AASB 1052 "Disaggregated Disclosures" beyond government departments?
The Board decided that AASB 1052 should not be amended as part of this project and should be addressed separately. The separate project should include consideration of the merits of the GFS functional classification requirements.

5. Specific matter for comment (e)
Should entities within the GGS be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049?
The Board decided that budgetary reporting requirements should not be mandated as part of this project, on the basis that such requirements should be dealt with in a separate project. However, a minority of Board members expressed a strong view that, if GAAP/GFS harmonisation were to be imposed on entities within the GGS, there is no conceptual reason to not subject them to the same budgetary reporting requirements that are imposed on whole of governments by AASB 1049.

6. Specific matter for comment (f)

Is there a need for specific transitional requirements to facilitate the adoption of the proposals in ED 174?

The Board decided that there would be a need for specific transitional requirements to facilitate adoption of the proposals if a choice in GAAP is mandated (see item 3 specific matter for comment (c) above). However, the Board noted that the approach it took for land under roads in AASB 1051 *Land Under Roads* [that land under roads does not represent a unique issue specific to GAAP/GFS harmonisation], continues to be suitable in the context of entities within the GGS.

7. Specific matter for comment (g)

Overall, would the proposals result in financial statements that would be useful to users?

The Board's decisions relating to this issue are contained in the body of the minutes.

8. Specific matter for comment (h)

Are the proposals in the best interest of the Australian economy?

The Board's decisions relating to this issue are contained in the body of the minutes.

9. Specific matter for comment (i)

Does the draft Illustrative Example provide guidance that is appropriate/helpful in implementing the proposals in ED 174?

The Board noted that the majority of constituents who commented on this issue found the draft Illustrative Example useful. The Board considered the following high level issues:

(a) *Net cost of services format:* The Board noted that a net cost of services format for the statement of comprehensive income is relevant to and adopted by some jurisdictions. Therefore, this format should continue to be allowed. The Board agreed that if the project were to proceed it would need to consider developing an acceptable illustrative statement of comprehensive income using a net cost of services format and including it as an accompaniment to the requirements, perhaps as the only illustration. However, the Board also acknowledged that allowing such a format would result in less comparable financial statements between and within jurisdictions than otherwise.

(b) *Alignment with AASB 1049:* In relation to the overall presentation of the Illustrative Example, the Board agreed that it should be amended to align to a greater degree with AASB 1049 Illustrative Example B, which illustrates GGS Financial Statements. Therefore, the Illustration should adopt a similar format and terminology, with a minimal level of detail presented, no comparatives, no source references and no zero balance items. The Board formed this view, on the basis that the illustration in AASB 1049 reflects its view of the interplay between GAAP and GFS for the purposes of describing and presenting line items on the face of the financial statements.

(c) *Statement of financial position in liquidity order:* The Board decided that the liquidity order presentation should not be prescribed because neither AASB 101 *Presentation of Financial Statements* nor AASB 1049 prescribes it, but agreed that the example should be consistent with the illustration in AASB 1049 in presenting the statement of financial position in a liquidity order.

(d) *Recycling:* The Board acknowledged that the recycling issue is a more general GAAP issue that is not peculiar to GAAP/GFS harmonisation, and that the transactions/other economic flows split would not cause a greater level of 'recycling' than that which already occurs under existing GAAP. Therefore, the Board concluded that this issue is outside the scope of this project.

10. Other issues

(a) Other issue 1: Definition of an 'entity' within the GGS

The Board decided that 'entity' within the GGS should be defined from a GAAP perspective, on the basis that the ABS GFS Manual does not focus on the individual entity in the same way that GAAP does.

(b) Other issue 2: References to 'entity within the GGS' throughout the Standard
The Board acknowledged the issue and noted that adoption of an omnibus application Standard and glossary would overcome the issue. However, until these are in place, the Board agreed that the drafting of specific Standards should not pre-empt the Differential Reporting project.

(c) Other issue 3: Exclusion of multi-jurisdictional entities
The Board agreed, consistent with the scope of the FRC's strategic direction, that multi-jurisdictional entities (e.g. universities, Murray-Darling Basin Commission) should be scoped out of any GAAP/GFS harmonisation requirements.

(d) Other issue 4: Definition of the 'ABS GFS Manual'
The Board agreed that, if the definition of the 'ABS GFS Manual' is included in a legislative instrument such as AASB 101, it should be defined and referred to in a way that avoids concerns about having ambulatory (rather than stationary) references to external documents in legislative instruments.

(e) Other issue 5: Additional explanations/definitions of relevant GFS terms
If GAAP/GFS harmonisation requirements were to be contained in Standards that do not already contain relevant GFS terms and definitions, the Board agreed that there is merit in providing more definitions of those terms, subject to the Board's comments about a general glossary in specific issue 2 specific matter for comment (b) above.

(f) Other issue 6: Application to economic entities that include subsidiaries that are public trading enterprises
After discussing the relief in AASB 127 *Consolidated and Separate Financial Statements* for subsidiaries not to prepare consolidated financial statements, the Board agreed that if GAAP/GFS harmonisation requirements were imposed on entities within the GGS, the requirements should note clearly that these entities are required to consolidate line-by-line all controlled entities, including those in the Public Non-Financial Corporations sector and Public Financial Corporations sector.

(g) Other issue 7: Key fiscal aggregates
The Board agreed that, if the proposals in ED 174 were to be progressed, it should be stated explicitly in any resulting Standard that only the GFS key fiscal aggregate 'net operating balance' is required (together with GAAP aggregates) and other GFS key fiscal aggregates are not required.

(h) Other issue 8: Liabilities of a department assumed by its central government
This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(i) Other issue 9: Presentation of discontinued operations
This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(j) Other issue 10: Presentation of the statement of financial position in liquidity order
See item 9(c), relating to specific matter for comment (i), above.

(k) Other issue 11: Require entities to explicitly refer to GAAP/GFS harmonisation in the accounting policy note
The Board agreed that if the ABS GFS Manual is used as a basis for determining accounting policies consistent with GAAP, the accounting policy note should make reference to that fact along similar lines to paragraph 39(a) of AASB 1049.

(l) Other issue 12: Explicitly allow the presentation of additional information in the financial statements
The Board agreed that entities should be permitted to present additional information in the financial statements. Furthermore, the Board agreed that, if an entity within the GGS elects to make additional disclosures, they should be explicitly required to be made in a way that does not detract from the information prescribed in the Standard. This is consistent with the second sentence of paragraph 18 of AASB 1049.

(m) Other issue 13: Explanation of why the approach adopted is so different from AASB 1049

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(n) Other issue 14: Amendments to AASB 1052

See other issue 4, specific matter for comment (d), above.

(o) Other issue 15: Costs associated with GAAP/GFS harmonisation at the entity level

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(p) Other issue 16: The appropriateness of GAAP/GFS harmonisation

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

(q) Other issue 17: Implications of IASB projects on GAAP/GFS harmonisation

This issue was not discussed at this meeting, and is to be carried over to a future meeting if the project is progressed further.

ATTACHMENT C

Leases

Agenda Item 9

The Board considered with the draft submission and agreed that its submission to the IASB/FASB should reflect the following comments:

(a) in relation to the general comments in the covering letter:
   (i) strengthen comment (a), regarding identification of leases, by specifically referring to the distinction between a service/executory contract and a lease, and a purchase versus a lease of an asset; and
   (ii) insert comment (d) of question 1, regarding whether in all situations involving a ‘right-of-use’ asset there would be a lease, in order to strengthen this point;

(b) in relation to question 1, regarding the scope of the proposed standard:
   (i) insert a comment in point (c) that the Boards should explicitly specify if cancellable leases are within the scope of these proposals; and
   (ii) insert a comment that the proposals should distinguish between a lease of an asset and a purchase of an asset with deferred payment terms, as there is a fundamental difference between these arrangements and that it should be clarified if a purchase of an asset with deferred payment terms is within scope of these new proposals;

(c) in relation to question 2, regarding the possible exclusion of non-core assets and short term leases:
   (i) delete the second paragraph because the issue described is not a standard-setting matter; and
   (ii) insert a comment that the Boards should clarify in the Basis for Conclusions in any forthcoming exposure draft that materiality should determine the inclusion or exclusion of these leases;

(d) in relation to question 3, regarding the analysis of the rights and obligations, and assets and liabilities arising in a simple lease contract, point (b) should be modified to explain that there is a view that the lessee has no present obligation in relation to payments for future option periods exercisable at the lessee’s discretion, and hence payments for option periods should not be included in the lease obligation as they do not meet the definition of a liability. Accordingly, the IASB should clarify in the Basis for Conclusions in any forthcoming exposure draft that payments arising on future option periods can conceptually be included in the liability, as the liability is explicitly linked to the asset on initial recognition and the cost of the asset includes all future economic benefits expected to be enjoyed during these future option periods;

(e) in relation to question 4, regarding the proposed approach for lease accounting:
   (i) the term ‘increased rentals’ in the third sentence in the first paragraph should be changed to ‘increased expenses’ and it should be explained that they arise in earlier lease periods due to the impact of interest expense;
   (ii) the first paragraph should be split into two. The new first paragraph should include reasons why the AASB agrees with the proposed approach and the new second paragraph should include commentary regarding the income statement effects of the proposed change. The proposed change would have a more pronounced effect on the income statement for operating leases and this point should be included in the Basis for Conclusions in any forthcoming exposure draft;
   (iii) within the second paragraph, comment that the Boards should justify why lease assets and liabilities are presented gross in the balance sheet when proposals are being developed to present assets and liabilities arising under insurance contracts on a net basis; and
   (iv) insert a paragraph to comment that the Boards make no reference to the ‘unit-of-account’ to which the proposals would apply;

(f) in relation to question 5, about not adopting a components approach to lease contracts:
   (i) insert a comment that the Boards should distinguish between lease payments and service payments and clarify whether service for providing services should be included in the lease

obligation and therefore the 'right-of-use' asset. If they are not to be included the Boards should provide guidance on how to separate the payments; and
(ii) clarify the last sentence to state that there are no further concerns other than those already included in the paragraph;

(g) in relation to question 6, regarding using the lessee's incremental borrowing rate to discount the present value of the lease payments to measure the lessee's obligation to pay rentals:
(i) change the comment to support the DP's proposal, because, where all cash flows are known, the incremental borrowing rate would equal the implicit rate for the asset;
(ii) insert a comment to suggest that the Boards provide more guidance on how to determine the incremental borrowing rate, especially for subsidiaries when their parent performs the financing for the group, and when only part of the asset is leased; and
(iii) modify the last paragraph to urge the Boards to clarify the measurement objective for the obligation to pay rentals in the Basis for Conclusions in any forthcoming exposure draft;

(h) in relation to question 8, regarding subsequent measurement of the 'right-of-use' asset:
(i) the comment should be changed to reflect the AASB's view that in concept the right-of-use asset is intangible and should be accounted for under IAS 38 *Intangible Assets* but that it may be more useful to users if the relevant IFRSs (for example, IAS 16 *Property, Plant and Equipment*) were to apply depending on the nature of the underlying asset; and
(ii) insert a comment that IAS 38 in its current form would not be sufficiently robust to deal with the complexities that would arise from the proposals and should therefore be reviewed;

(i) in relation to question 9, regarding permitting a lessee to elect to measure its obligation to pay rentals at fair value:
(i) change the comment to reflect the AASB's view that the fair value option should be allowed; and
(ii) insert a comment that the proposed lease standard could mandate initial recognition but then cross reference to IAS 38 and IAS 39 *Financial Instruments: Recognition and Measurement* for subsequent measurement;

(j) in relation to question 10, regarding revision of obligations to pay rentals to reflect changes in the incremental borrowing rate:
(i) insert comments in 'paragraph 5.23' rather than referencing to it;
(ii) insert a comment that revision should only be performed when there is a change in cash flows that would necessitate revision of the obligation; and
(iii) insert a comment that, if the proposals do go ahead, the Boards would need to provide guidance about incremental borrowing rates when there are changes in the lease term;

(k) in relation to question 11, regarding specifying the required accounting for the obligation to pay rentals:
(i) delete the word 'tentatively'; and
(ii) insert a comment that the Boards should justify proposing accounting for lease obligations that is different from other financial liabilities;

(l) in relation to question 12, regarding the description of the decrease in the value of the right-of-use asset, change the comment to state that the AASB is of the view that the decrease in value should not be described as rental expenses on the basis that the 'right-of-use' asset is intangible and therefore the decrease in value should be disclosed as amortisation;

(m) in relation to question 13, regarding the decision to focus on the most likely lease term:
(i) delete second paragraph; and
(ii) include a comment that the AASB is of the view that the determination of lease term should be made in the context of a management view of the entity's operations;

(n) in relation to question 16, regarding the inclusion of contingent rentals in the lessee's obligation to pay rentals, insert a comment to request that the proposals include requiring the disclosure of assumptions for estimating contingent rentals;

(o) in relation to question 17, regarding differences of opinion between the FASB and the IASB for measurement of contingent rentals payable, change the comment to reflect that the approach to measurement of uncertain contingent rents payments should be consistent with the outcomes of the Liabilities project;

(p) in relation to question 21, regarding consistency between accounting for contingent rentals and residual value guarantees, the comments should be similar to those of question 17;

(q) in relation to question 23, regarding presentation of the right-of-use asset, change the comment to be consistent with the AASB's views expressed at question 8;

(r) in relation to question 24, regarding miscellaneous lessee issues:
   (i) delete the third dot point regarding impairment;
   (ii) include cancellable leases point;
   (iii) include distinguishing between leases vs. service contracts and deferred purchase arrangements; and
   (iv) include the need for guidance about the incremental borrowing rate when there are changes in the lease term;

(s) in relation to question 26, regarding lessor accounting for the right-of-use asset:
   (i) insert a comment that the IASB needs to provide more information on the recognition, measurement and presentation methods it plans to adopt in approach (b) and although the Board tentatively agrees with approach (b) it is difficult to come to a final conclusion until the IASB addresses all of these areas; and
   (ii) that although the AASB tentatively agrees with the proposed approach to recognition described in approach (b), the AASB is of the view that presentation in the balance sheet should be on a net basis;

(t) in relation to question 27, regarding the lessor recognising income at the inception of the lease, delete all comments after the second sentence;

(u) in relation to question 28, regarding whether investment properties are to be included within the scope of lessor accounting, change the comment to state that any fundamental revision of IAS 40 *Investment Property* should depend on the outcome of the Leases project for lessor accounting and that investment property need not be included in the scope of the proposals at this stage; and

(v) in relation to question 29, regarding miscellaneous lessor accounting issues, the comment should be changed to state that the AASB is of the view that lessee accounting should not be finalised before lessor accounting is addressed because the accounting is interrelated for transactions such as sub-leases.