



Subject: Minutes of the 106th meeting of the AASB

Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne

Time(s): Wednesday 28 April 2010 from 9.00 a.m. to 5.00 p.m.
Thursday 29 April 2010 from 8.30 a.m. to 4.15 p.m.

All agenda items except items 8 and 17 were discussed in public.

Attendance

Members Kevin Stevenson (Chairman)
 Glenn Appleyard
 Victor Clarke
 Sue Highland
 Mark Jenkin
 Ian McPhee
 John O'Grady
 Frank Palmer (until 12:30 p.m. Day 2)
 Kris Peach
 Joanna Perry (until 1:30 p.m. Day 2)
 Bruce Porter
 Brett Rix
 Robert Williams

In Attendance Tim Youngberry (IPSASB Member) Agenda Items 3 and 15

Staff Clark Anstis (in part)
 Dean Arden (in part)
 Mischa Ginns (in part)
 Ahmad Hamidi (in part)
 Robert Keys
 Christina Ng (in part)
 Emma O'Brien (in part)
 Latif Oylan (in part)
 Jim Paul (in part)
 Siva Sivanantham (in part)
 Joanna Spencer
 Angus Thomson
 Raymond Yu (in part)

Staff from the NZ FRSB dialled into the meeting for Agenda items 4, 10, 11,12 and 13

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 one hundredth and fifth meeting held on 17-18 March 2010 in Auckland, New Zealand.

Chairman's Report

Agenda Item 2

The Chairman:

- (a) provided Board members with an overview of the National Standards Setters meeting held in Seoul on 14-15 April 2010. He noted that the agenda is becoming more relevant to the AASB and the IASB is working more closely with NSSs than in the past;
- (b) noted that revisions are being made to the process of formulating Regulation Impact Statements (RIS) and that the decision as to whether a RIS is needed will be made by the Office of Best Practice Regulation. At present it is the issuing body that makes the decision; and
- (c) the FRC Nominations Committee has met since the last Board meeting and noted that Bruce Porter and Frank Palmer will not be seeking reappointment to the AASB.

IPSASB Report

Agenda Item 3

The Board had before it:

- (a) a memorandum from Clark Anstis dated 14 April 2010 (Agenda paper 3.1); and
- (b) IFAC's "IPSASB Meeting Highlights", April 2010 (Agenda paper 3.2).

The Board received an update on the April 2010 meeting of the IPSASB from Tim Youngberry, the Australian member of IPSASB. Mr Youngberry outlined the potential changes to governance arrangements as well as strategy and project priorities for the triennium 2010-2012 discussed by the IPSASB. Those discussions will continue at its next meeting. The IPSASB may decide to alter the priority of existing projects, such as removing accounting for heritage assets from its active project list.

Mr Youngberry also noted the following:

- (a) the priority that the IPSASB is giving to its conceptual framework project, with more than half of the IPSASB's meeting time devoted to framework issues;
- (b) the IPSASB decision not to consider amendments to its new financial instruments Standards for consistency with IASB Standards until the IASB has completed its work on IFRS 9 *Financial Instruments*; and

- (c) the IPSASB did not approve a revised draft Standard on entity combinations, as agreement could not be reached on the scope of the Standard. The IPSASB is now planning to address entity combinations more particularly in relation to specific public sector issues.

Members discussed these matters but made no decisions.

Joint Arrangements

Agenda Item 4

The Board had before it:

- (a) a memorandum from Siva Sivanantham and Maybelle Chia dated 12 April 2010 (Agenda paper 4.1); and
- (b) AASB's submission to IASB ED 9 *Joint Arrangements* (Agenda paper 4.2).

The Board received an update on the IASB's tentative decisions to date on the Joint Ventures project as a background to considering the forthcoming replacement Standard for IAS 31 *Interests in Joint Ventures*, which the IASB plans to issue by June 2010.

The Board noted the likely changes to the terminology and disclosure requirements and the likely removal of the proportionate consolidation option permitted under the existing IAS 31.

The Board also discussed a number of other matters relating to the IASB's project and agreed that the Chairman should write to the IASB Chairman to encourage the IASB to:

- (a) reconsider its decision not to resolve, as part of the Joint Ventures project, the inconsistency between IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* regarding the accounting for gains and losses resulting from contributions of non-monetary assets to jointly controlled entities; and
- (b) consider clarifying whether a non-controlling party to a joint operation with a different functional currency should treat its interest as a 'foreign operation' (as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*) by virtue of being a 'branch' and therefore be permitted to use foreign currency translation reserve accounting.

Action:

Staff
Chairman

Related Party Disclosures in the public sector

Agenda Item 5

The Board had before it:

- (a) a memorandum from Raymond Yu dated 12 April 2010 (Agenda paper 5.1);
- (b) Issues Paper *Related Party Disclosures in the Not-for-Profit Public Sector* (Agenda paper 5.2); and
- (c) Information Paper *Current (NFP) public sector entities disclosures required besides AASB 124 in financial reports* (Agenda paper 5.3).

The Board has tentatively agreed to adopt the FRSB's approach of exempting non-Portfolio Ministers from making the disclosures in paragraph 18 of IAS 24 *Related Party Disclosures* in respect of the relevant reporting entity. The Board agreed to consider a paper at a future Board meeting dealing with:

- (a) how the FRSB's approach to Ministers would apply in the Australian context;

- (b) preliminary drafting for a proposed FRSB-equivalent exemption for Ministers;
- (c) a summary of FRSB's agenda papers on the formulation of the exemption for Ministers; and
- (b) the application of the 'key management personnel' disclosure requirements in AASB 124 to the public sector.

The Board agreed that the Basis for Conclusions for an eventual exposure draft should explain:

- (a) the rationale for not incorporating additional remuneration disclosure requirements for individual key management personnel in AASB 124 *Related Party Disclosures*; and
- (b) the reason for not requiring an alternative definition for the term 'business' in paragraph 5 of AASB 124.

Action:

Staff

Statutory Receivables

Agenda Item 6

The Board had before it:

- (a) a memorandum from Emma O'Brien dated 15 April 2010 (Agenda paper 6.1);
- (b) a letter from the Chairman of the Financial Reporting and Auditing Committee of the Australasian Council of Auditors-General to the AASB Chairman, dated 1 April 2010 (Agenda paper 6.2); and
- (c) a letter from the AASB Chairman to the ACAG Committee, dated 21 December 2009 (Agenda paper 6.3).

The Board considered the agenda papers and confirmed its view that AASB 136 *Impairment of Assets* (rather than AASB 139 *Financial Instruments: Recognition and Measurement*) applies to the impairment of statutory receivables because of the non-contractual nature of such receivables.

The Board noted that in applying paragraph 23 of AASB 136, which refers to the use of estimates, averages and computational short cuts, the determination of the unit of account at which statutory receivables would be assessed for impairment under AASB 136 requires the exercise of judgement having regard to the circumstances. The Board decided that neither an Aus paragraph nor a Board Agenda Decision explicitly addressing the impairment of statutory receivables is warranted.

The Board also considered whether to initiate a project on the broader topic of disclosures about statutory receivables, particularly to consider whether disclosures compatible with AASB 7 *Financial Instruments: Disclosures* should be required. The Board decided not to initiate such a project, and instead decided to monitor and participate in any work that the IPSASB might undertake in relation to statutory receivables.

The Board decided that the Chairman should write to the ACAG, with a copy to the HoTARAC, conveying the outcome of the Board's discussions.

Action:

Staff
Chairman

HoTARAC & ACAG Roundtables and AASB Planning

Agenda Items 7 and 8

The Board had before it a memorandum from Angus Thomson and Robert Keys dated 14 April 2010 (Agenda paper 8.1).

The Board noted the discussions on planning at the March 2010 AASB/NZ FRSB joint meeting, as outlined in the draft Minutes.

The Board's discussion centred on three main themes:

- (a) engagement and communication with constituents;
- (b) the AASB's long-term leadership role; and
- (c) managing with limited resources.

The Board noted that its discussion (along with the discussion at the joint March 2010 meeting) would be used as part of the input for a report to the AASB and FRSB Chairs for their use in setting out possible goals and solutions for the Boards to pursue.

Engagement and communication with constituents

The Board identified a number of issues that need to be addressed in the short term, including:

- (a) ensuring that it is known where the Board spends its time, and emphasising that considering IFRSs in a transaction neutral context serves all constituencies, but also developing its view on how public sector standards fit into the overall standard setting landscape so that the focus is on being attentive to public sector needs, rather than being seen as too focused on transaction neutrality and alignment with IFRSs;
- (b) the large number of impending changes to IFRSs that might be considered to be akin to a second '2005 adoption' phase, and the need to promote the benefits of the changes and help facilitate their application;
- (c) in the context of differential reporting, the need to deal with regulators involved in setting financial reporting requirements to make sure they are making informed decisions about the entities that should (and should not) be required to prepare general purpose financial statements;
- (d) considering the greater use of observer positions on the Board (with the right to speak but not vote) to improve liaison with, for example, the FRC, ACAG, HoTARAC, G100 and the Accounting Bodies. The Board noted the existing observer positions are for Australians on the IPSASB, IASB and IFRS Advisory Committee;
- (e) reforming the Consultative Group to better facilitate the Board's work, perhaps by dividing the Group based on broad topical interests, such as public sector, financial instruments, or conceptual framework, and possibly adding to the Group from the memberships of Project Advisory Panels.

The Board also decided that the Chairman should discuss the Board's work program with ACAG and HoTARAC representatives in the context of recent correspondence with those bodies.

AASB's long-term leadership role

The Board identified a number of factors relevant to maintaining and enhancing the AASB's leadership role, including:

- (a) focusing on selected 'thought leadership' projects at both the international and domestic levels, such as that already being conducted on Intangible Assets in the context of the National Standard Setters Group. Board members noted that, ideally, these projects would be applicable across all types of entities, such as the Scope of Financial Reporting;
- (b) undertaking major projects of particular interest in the not-for-profit and public sector environment, including Reporting Entity/Control in the Public Sector, and Disclosures by Not-for-Profit Entities; and

- (c) balancing promotion of the adoption of IFRSs in the region with the risk that the IASB might not meet expectations in relation to due process and the rigour of its decision making (such as having due regard to the concepts), and maintaining a viable domestic standard setting function.

Managing with limited resources

The Board identified a number of issues concerning the effective use of the AASB's resources, including:

- (a) building on the existing relationship with the New Zealand FRSB, including under the proposed restructuring of standard setting arrangements in New Zealand;
- (b) the current profile of the AASB staff, and the need to fill positions that will provide for replenishment at the senior level; and
- (c) the current profile of the AASB membership – roughly a third of the membership will change in each of the next three years.

Interpretations

Agenda Item 9

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 14 April 2010 (Agenda paper 9.1);
- (b) a paper: Interpretation issues in progress (IFRIC and domestic issues as at 14 April 2010) (Agenda paper 9.2);
- (c) a memorandum from Joanna Spencer dated 14 April 2010 (Agenda paper 9.3); and
- (d) *IFRIC Update March 2010* (Agenda paper 9.4).

The Board received an update on the March 2010 IFRS Interpretations Committee's meeting, which included an update on two current projects; vesting and non-vesting conditions for share-based payment transactions and accounting for production stripping costs.

The Board noted that there is:

- (a) a draft interpretation on production stripping costs; and
- (b) an issues paper on whether IFRS 1 *First-time Adoption of IFRS* can be applied more than once, which was a matter raised at the April 2010 NSS meeting

being presented by IFRS Interpretations Committee staff at the 6-7 May 2010 Interpretations meeting.

The Board also noted the tentative and final agenda decisions made at the March 2010 meeting.

The AASB staff will continue to monitor the IFRS Interpretations Committee's projects.

Action:

Staff

Differential Reporting

Agenda Item 10

The Boards had before them:

- (a) a memorandum from Ahmad Hamidi and Lisa Panetta dated 14 April 2010 (Agenda paper 10.1);
- (b) Issues to be Discussed at the Roundtables (Agenda paper 10.2)
- (c) Update on Global Adoption of the *IFRS for SMEs* (Agenda paper 10.3)
- (d) Brief Summary of Responses to EC Consultation on the *IFRS for SMEs* (Agenda paper 10.4)
- (e) Brief Summary of Comments by UK Responses on Proposed Adoption of the *IFRS for SMEs* (Agenda paper 10.5)

The Board considered staff papers and a presentation updating members on the direction of comment letters received in respect of ED 192 *Revised Differential Reporting Framework* and the related Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements*. The Board also reviewed developments in other jurisdictions in regard to the adoption of the IASB's *IFRS for SMEs*.

The Board noted that a collation of comments will be put to the May 2010 meeting with a view to making an in-principle decision about the way the differential reporting project should progress.

Action: Staff

Other/Emerging Issues

Agenda Item 11

The Board had before it a memorandum from Jessica Lion dated 12 April 2010 (Agenda paper 11.1).

The Board noted that the topic addresses whether to extend 'relief' from preparing consolidated financial statements that is provided to intermediate parent entities under paragraph 10 of AASB 127 *Consolidated and Separate Financial Statements* to situations where the ultimate parent does not comply with International Financial Reporting Standards IFRSs, but complies with:

- (a) Australian Accounting Standards, including some of the Aus paragraphs that relate to not-for-profit entities; and
- (b) a 'Tier 2' regime, such the Reduced Disclosure Regime.

The Board identified a number of issues that need to be further considered, including the view that:

- (a) a 'Tier 1' intermediate parent, such as a publicly accountable entity, should only be allowed relief where the consolidated financial statements of the ultimate parent complies with 'Tier 1' reporting requirements; and
- (b) it may not be appropriate to allow relief to a for-profit intermediate parent where the ultimate parent is a not-for-profit entity preparing consolidated financial statements in accordance with Australian Accounting Standards, including some of the Aus paragraphs that relate to not-for-profit entities.

The Board discussed a possible principle that could underlie the relief – such that relief is only provided to an intermediate parent entity where the ultimate parent prepares consolidated financial statements that comply with the same reporting requirements that would otherwise apply to the intermediate consolidated financial statements. This is because a justification for the relief is that the information that would be available about intermediate group, if the intermediate parent were to prepare consolidated financial statements, is available within the ultimate parent's consolidated financial statements.

Members noted that such a principle may narrow the availability of the existing relief in relation to an intermediate not-for-profit group that has an ultimate parent that is a for-profit entity complying with IFRSs.

The Board decided that an analysis of the different possible scenarios should be prepared for consideration at a future meeting to enable members to clearly consider the likely impacts of changing the conditions for relief.

Action: Staff

Liabilities

Agenda Item 12

The Board had before it:

- (a) a memorandum from Mischa Ginns and Jim Paul dated 15 April 2010 (Agenda paper 12.1); and
- (b) a staff paper: PBE/NFP-specific modifications to the IFRS to replace IAS 37 (Agenda paper 12.2).

The Board noted that the IASB is developing a replacement for IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which it plans to issue in the third quarter of 2010.

The Board considered whether the corresponding AASB Standard that will replace AASB 137 should include a modification similar to paragraphs Aus26.1 and Aus26.2 of AASB 137, which provide guidance on when a local government, government department or government incurs a liability in respect of a local government's or government's existing policy, budget policy, election promise or statement of intent.

The Board decided:

- (a) that, in respect of public sector not-for-profit entities (NFPs), the expected new Standard should preserve the present treatment of the items addressed in paragraphs Aus 26.1 and Aus26.2 of AASB 137. This objective should be noted in the Basis for Conclusions accompanying the new AASB Standard;
- (b) to work with the FRSB to achieve a common modification to the new IFRS in Australia and New Zealand;
- (c) that it intends to express the modification as a scope exclusion; and
- (d) that the illustrative examples for public benefit entities (PBEs) contained in NZ IAS 37 should not be included in the modifications to the new IFRS.

The Board directed staff to:

- (a) seek information from government and local government representatives about how paragraphs Aus26.1 and Aus26.2 of AASB 137 are currently being interpreted in practice; and
- (b) provide that information to FRSB staff before the FRSB meeting on 3 May 2010, together with an update on these AASB decisions (including, specifically, the AASB's view that the scope of the existing PBE/NFP-specific modification should not be extended to include private sector PBEs/NFPs).

Action: Staff

Financial Instruments

Agenda Item 13

The Board had before it:

- (a) a memorandum from Christina Ng dated 14 April 2010 (Agenda paper 13.1);
- (b) IASB/FASB summary of proposed derecognition model (Agenda paper 13.2);
- (c) summary findings of the AASB Amortised Cost and Impairment Roundtables (Agenda paper 13.3); and
- (d) key points for comment on the Amortised Cost and Impairment ED (Agenda paper 13.4).

The Board received an update on the IASB Replacement of IAS 39 project, in particular:

- (a) classification and measurement of financial liabilities;
- (b) derecognition of financial assets and financial liabilities;
- (c) hedge accounting; and
- (d) impairment of financial assets (Amortised Cost and Impairment ED).

The Board noted that:

- (a) the IASB plans to issue an ED, in May 2010, on revisions to IAS 39 for the classification and measurement of financial liabilities with a comment period of 60 days. The ED will propose changes to only the recognition requirements in relation to the impact of own credit risk on financial liabilities designated at fair value. The ED will also propose, as consequential amendments:
 - (i) removing the cost exemption for derivative liabilities that will be physically settled by delivering unquoted equity instruments whose fair value cannot be reliably determined; and
 - (ii) disclosures about own credit risk where financial liabilities are designated at fair value, including that is, how much of the accumulated OCI balance relating to changes in own credit risk was realised during the current period;
- (b) the IASB plans to issue EDs on the derecognition model for financial assets and financial liabilities, and hedge accounting in Quarter 2 of 2010; and
- (c) the IASB issued a user survey on the Amortised Cost and Impairment ED for comment by analysts and investors by 30 June 2010. The survey includes questions about:
 - (i) how users view/interpret credit losses in the context of revenue recognition; and
 - (ii) the information regarding the quality of financial assets and credit loss information that should be disclosed for user analysis.

AASB staff will liaise with the AASB User Focus Group to encourage responses.

The Board also considered key issues/concerns raised at the March 2010 Roundtables, held in Melbourne and Sydney, relating to the Amortised Cost and Impairment ED. The Board expressed concern about the conceptual basis for the IASB proposed model—in that, the recognition of impairments is to be a function of revenue recognition. In particular, the Board considered the appropriateness of:

- (a) combining the measurement of amortised cost assets, revenue and impairment in one model, which includes elements of fair value, that is, management's expectations of credit losses. Furthermore, including fair value elements in the measurement of amortised cost assets seems inconsistent with the measurement basis for such assets;
- (b) recognising and presenting revenue net of management's initial expectations of credit losses, which would result in a lower net revenue margin; and
- (c) recognising subsequent changes in credit loss expectations immediately in profit or loss. Some Board members considered a case for spreading subsequent changes in expectations—to be consistent with spreading management's initial expectations of credit losses—over the remaining life of the asset by adjusting the initial effective interest rate, which, under the proposed model, is used to calculate revenue in each period.

The Board noted that field testing by the IASB Expert Advisory Panel, including simplifications to the IASB proposed model, is underway. Staff will continue to monitor the IASB's progress on the Replacement of IAS 39 project, and undertake a comprehensive review of the FASB Accounting for Financial Instruments project in comparison with the IASB proposals.

Action: Staff

Superannuation

Agenda Item 14

The Board had before it:

- (a) a memorandum from Dean Ardern dated 14 April 2010 (Agenda paper 14.1);
- (b) an issues paper that discusses out-of-session comments received from Board members in response to the staff proposals in Agenda paper 6.3 to the Board's February 2010 meeting in relation to various presentation, drafting and disclosure issues (Agenda paper 14.2);
- (c) an issues paper that discusses issues in relation to the disclosure of a difference between the fair value of a subsidiary and the net assets of the subsidiary in the parent's consolidated financial statements under the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* (Agenda paper 14.3);
- (d) an issues paper that discusses the principles and requirements in AASB 7 *Financial Instruments: Disclosures* and their relevance to a superannuation entity (Agenda paper 14.4);
- (e) an issues paper that discusses the principles and requirements in the IASB's forthcoming *Fair Value Measurements* Standard and their relevance to a superannuation entity (Agenda paper 14.5); and
- (f) a proposed timetable for completion of a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 14.6).

The Board considered Agenda paper 14.1 and noted that:

- (a) in February, the Chairman, the Deputy Chairman, AASB staff and FRC staff met with Mr Jeremy Cooper and Mr Brad Tallents from the Commonwealth Government's Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System. The meeting covered a number of issues in relation to reporting to members of superannuation industry, including the basis of member reporting, the use of financial reports by members, segmented financial disclosures and related party disclosures; and
- (b) the IASB and FASB have tentatively decided that an investment company should be exempted from preparing consolidated financial statements and required to provide additional disclosures about

subsidiaries when it measures its investments in subsidiaries at fair value. In addition, the Board noted that the IASB and FASB have tentatively identified a number of criteria that an entity would need to meet to qualify for investment company accounting, and that, if adopted, some superannuation entities could potentially meet the criteria.

The Board decided that, as the issue of investment company accounting has implications beyond superannuation entities, the issue may need to be dealt with separately from the Board's redeliberations on ED 179, subject to the timing of any IASB ED on investment company accounting and the timing of completion of a replacement Standard for AAS 25. Accordingly, the Board directed staff to continue monitoring developments in the IASB's Consolidation project.

The Board considered Agenda paper 14.2 and decided that:

- (a) it should reconsider the 'geography' of the replacement Standard for AAS 25, particularly whether to relocate the material that is retained from Appendix B (Application Guidance) to ED 179 into the body of the Standard, when it reconsiders a draft version of the replacement Standard;
- (b) consistent with the proposals in ED 179, the replacement Standard for AAS 25 should clarify that a superannuation plan or approved deposit fund (ADF) that recognises a defined benefit and/or defined contribution 'surplus' or 'deficiency' should, consistent with paragraph 55 of AASB 101 *Presentation of Financial Statements*, present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position; and
- (c) the replacement Standard for AAS 25 should clarify that:
 - (i) vested benefits are the benefits to which members or their beneficiaries would be entitled on voluntary withdrawal from the plan or ADF at the end of the reporting period; and
 - (ii) in the context of defined benefit members' vested benefits, the term 'withdrawal' could be interpreted to mean voluntary withdrawal by the member from either the defined benefit section of the plan or from the plan itself.

In addition, the Board decided that the Basis for Conclusions to the replacement Standard for AAS 25 should note that the amount of benefits payable to some defined contribution members may differ from their vested benefits in circumstances when their departure from their sponsoring employer is not voluntary. Accordingly, in such circumstances the plan should consider the implications of any 'excess' benefits payable to defined contribution in preparing their liquidity and solvency risk disclosures under the replacement Standard for AAS 25;

- (d) consistent with the proposals in ED 179, the replacement Standard for AAS 25 should not require a plan or ADF to separately disclose investment management fees from other investment related expenses;
- (e) the replacement Standard for AAS 25 should clarify that a plan with defined benefit members might disclose information in relation to:
 - (i) whether it has a current funding and solvency certificate; and
 - (ii) if so, the date on which the certificate is expected to expire;in the context of its disclosures in relation to liquidity risk under AASB 7 if such information would provide users with an understanding of the entity's capacity to meet its obligations for member benefits (solvency);
- (f) the example financial statements in ED 179 should be amended as follows:
 - (i) the level of detail should be reduced;

- (ii) references to contribution surcharge tax should be deleted;
 - (iii) references to profit or loss should be replaced with the phrase 'operating result' or another similar phrase; and
 - (iv) the example 'hybrid' superannuation plan financial statements should demonstrate how a plan or ADF that recognises a defined benefit and/or defined contribution 'surplus' or 'deficiency' could present such a surplus or deficiency. In addition, the Board decided that the example proposed in KPMG's response to the proposals in ED 179 would provide an appropriate basis for an illustrative example of a hybrid plan's statement of financial position; and
- (g) the example financial statements in ED 179 should not be amended to:
- (i) replace the phrase 'cash flows from financing activities' with 'cash flows from member activities' because the example cash flow statement includes items that are not in the nature of cash flows from member activities, such as interest paid and dividends paid;
 - (ii) insert the words 'on investment earnings' after the phrase 'income tax' because the example income statement includes line items that are not in the nature of investment activities, such as insurance revenues and insurance expenses;
 - (iii) incorporate members' insurance premiums in the statement of movements in members' vested benefits because the recognition of insurance premiums as revenues is consistent with the approach under AASB 1038 *Life Insurance Contracts*; and
 - (iv) clarify that any operating loss attributable to members represents merely a timing difference between earnings and allocations because any allocations to members during a reporting period are in the nature of expenses. Accordingly, if the total expenses recognised by a plan or ADF for a period, including allocations to members, exceeds the total income recognised by the plan or ADF for the same period, the plan should arguably report an operating loss for that period.

The Board considered Agenda paper 14.3 and decided that:

- (a) the replacement Standard for AAS 25 should not require the disclosure of information in relation to any difference between:
 - (i) the fair value of a parent plan's or parent ADF's interest in a subsidiary; and
 - (ii) the carrying amount of the net assets of the subsidiary that would be recognised by the parent plan or parent ADF in its consolidated financial statements; and
- (b) the Basis for Conclusions to the replacement Standard for AAS 25 should note that the Board considered how any difference between the fair value of a parent's interest in a subsidiary and the carrying amount of the net assets of the subsidiary recognised by the parent should be treated. The Basis for Conclusions should also note that the Board concluded that Australian Accounting Standards do not prevent a parent from disclosing information about any such difference, including the amount of the difference or the reasons for the difference. Accordingly, if such a difference exists, the parent plan or parent ADF could disclose information about the difference if the parent considers that this information would be useful to users of its financial statements.

The Board considered Agenda paper 14.4 and noted that:

- (a) in respect of AASB 7, ED 179 proposes that the qualitative and quantitative disclosure principles and requirements (paragraphs 31-42) in AASB 7 apply to all types of assets and liabilities (including non-financial assets and non-financial liabilities) held by a plan or ADF. To facilitate the disclosure of this

information by superannuation entities, ED 179 includes the relevant disclosure principles, requirements and application guidance in AASB 7;

- (b) a number of respondents to ED 179 recommended that, where necessary and applicable, the replacement Standard for AAS 25 should place greater emphasis on referring to the disclosure principles and requirements in other Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements;
- (c) many of the principles and requirements in AASB 7 would be relevant to a plan or ADF under the replacement Standard for AAS 25. However, some limited guidance may be necessary to facilitate the application of the disclosure principles and requirements in AASB 7 in the context of the reporting requirements in the replacement Standard;
- (d) under the replacement Standard for AAS 25, all financial assets and financial liabilities held by a plan or ADF would be measured (mandatorily) at fair value through profit or loss; and
- (e) in respect of the principles and requirements in AASB 7, the approach proposed in ED 179 is arguably not consistent with the Board's policy of transaction-neutrality and may not facilitate a plan or ADF providing similar disclosures to other investment-type entities, such as managed investment schemes and pooled superannuation trusts.

The Board decided that, contrary to the approach proposed in ED 179, the replacement Standard for AAS 25 should require a plan or ADF to apply the principles and requirements in AASB 7, as appropriate. Accordingly, under the replacement Standard, a plan or ADF would provide disclosures that enable users to evaluate, among other things, the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks. In addition, the Board decided that the replacement Standard for AAS 25 should:

- (a) only include guidance considered necessary to facilitate the application of the disclosure principles and requirements in AASB 7 in the context of the reporting requirements in the replacement Standard. Such guidance would, for instance, clarify that:
 - (i) financial assets held by a plan or ADF should be considered mandatorily measured at fair value in accordance with AASB 9 *Financial Instruments*;
 - (ii) financial liabilities held by a plan or ADF should be considered to meet the definition of held for trading in AASB 139 *Financial Instruments: Recognition and Measurement*;
 - (iii) references in AASB 7 to 'statement of comprehensive income' should be read by a plan or ADF to mean 'income statement'; and
 - (iv) references in AASB 7 to 'profit or loss' should be read by a plan or ADF to mean 'net profit or loss attributable to members'; and
- (b) require a plan or ADF to provide disclosures that are consistent with the types of information disclosed under AASB 7 in relation to the liquidity risk to which the entity is exposed arising from all of its assets and liabilities (not just the liquidity risk arising from financial assets and financial liabilities to which it is exposed), including its obligations for members' benefits.

The Board decided that staff should prepare an issues paper that considers the implications of requiring a plan or ADF to:

- (a) apply the principles and requirements in AASB 7, as appropriate, under the replacement Standard for AAS 25; and
- (b) provide disclosures that are consistent with the types of information disclosed under AASB 7 in relation to the liquidity risk to which the entity is exposed arising from all of its assets and liabilities;

for consideration at a future meeting.

The Board considered Agenda paper 14.5 and noted that:

- (a) the IASB's ED/2009/5 Fair Value Measurements proposes a principles-based approach to determining fair value measurements under IFRSs; and
- (b) any implementation issues that a superannuation entity might encounter in applying the proposals in ED/2009/5 are unlikely to be unique to such entities and would potentially arise in the context of other investment-type entities that currently apply IFRSs, such as managed investment schemes.

The Board decided that the replacement Standard for AAS 25 should refer to the principles and requirements anticipated in the IASB's forthcoming Fair Value Measurement Standard.

Action:

Staff

GAAP/GFS Harmonisation – entities within the GGS

Agenda Item 15

The Board had before it:

- (a) a memorandum from Robert Keys dated 14 April 2010 (Agenda paper 15.1); and
- (b) an Issues paper: GAAP/GFS Harmonisation: Entities within the GGS – Project staff recommendations for the content of a Standard (Agenda paper 15.2).

The Board considered the agenda papers in the context of previous discussions relating to respondent comments on the proposals in Exposure Draft ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052], and decided to develop a further ED to seek comments on a range of proposals that, as a package, differ from the proposals in ED 174.

Specific proposals to be incorporated into a draft ED for consideration by the Board at a future meeting are:

- (a) in relation to recognition and measurement – require a choice in GAAP to be limited to align with GFS. This is because the implications of such an approach, analysed in Appendix A of agenda paper 15.2, demonstrate that the approach would result in more relevant information for users, after taking into account changes to GAAP choices that are likely to arise from current IASB projects (such as in relation to AASB 131 *Interests in Joint Ventures*);
- (b) in relation to classification and presentation – require the primary financial statements to continue to be prepared on a basis consistent with AASB 101 Presentation of Financial Statements, and not require GFS-based classifications to be presented on the face of the financial statements. This is on the basis that users' needs for on-the-face GFS information is not evident and, given the flexibility in AASB 101, it would not be appropriate for the AASB to limit GAAP in that way. Instead, the ED should propose to require note disclosure of information (in addition to the requirements of AASB 1050 *Administered Items*) that combines controlled/departmental items and administered items, presented using GAAP/GFS harmonised classification principles (including the distinction between transactions and other economic flows and the disclosure of the net operating balance). This note disclosure would provide a bridge between the general purpose financial statements of an entity within the GGS and the GGS/whole of government, and assist users in assessing the contribution of an individual entity within the GGS to the GGS/whole of government. The Board directed staff to consider different ways in which such information might be required to be presented in the notes. The results of that staff research might form the basis of proposed application guidance that could accompany the ED;
- (c) in relation to disclosure of budgetary information – consistent with accountability principles, require disclosure of the same kind of budgetary information, and under the same circumstances, that is

specified in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for GGSs and whole of governments. The Board noted that its in-progress post-implementation review of AASB 1049 might lead to changes to the budgetary reporting requirements of AASB 1049. If the requirements change, then consideration should be given to the suitability of those requirements for entities within the GGS. However, until then, the draft ED should reflect the current AASB 1049 requirements related to budgetary reporting;

- (d) in relation to disclosure of disaggregated information – not require such disclosures in a GAAP/GFS harmonised context. Instead, due to the nature of the topic of disaggregated information, it should be addressed in a separate, high priority project;
- (e) in relation to disclosure of the contribution of each material controlled entity before and after eliminations (as a disaggregation) by the GGS/whole of government – not require such disclosures. Instead, the issue should be addressed as part of the separate project on disaggregated information (see item (d) above), including consideration of the extent to which such information is in the nature of management information rather than information useful to the needs of external users;
- (f) in relation to other disclosures:
 - (i) where an entity elects to make additional disclosures in the financial statements, require it to be made in a way that does not detract from the information prescribed in Australian Accounting Standards; and
 - (ii) require the accounting policy note to include a statement of the basis upon which the financial statements are prepared. Depending on the extent to which ABS GFS Manual principles are incorporated directly into the ED (see item (i) below), it might not be appropriate or necessary for the accounting policy note to refer explicitly to GAAP/GFS harmonisation or the ABS GFS Manual;
- (g) in relation to transitional issues:
 - (i) for any future changes to the ABS GFS Manual, the Board should consider whether there is a need for specific transitional requirements at the time of the change;
 - (ii) for the proposals as a whole, adopt the same kind of transitional requirements contained in AASB 1049 for whole of governments; and
 - (iii) for the proposals as a whole, allow a period of three years from the issue of any Standard that arises from the ED before it becomes mandatory;
- (h) in relation to the scope of the proposals:
 - (i) the ED should only apply to not-for-profit entities within the GGS, because, on balance, it is more relevant to compare a for-profit public sector entity with a for-profit private sector entity rather than with a not-for-profit public sector entity. The ED should include a question about the appropriateness of the proposal to not apply the proposed requirements to for-profit entities within the GGS; and
 - (ii) the technical topics to be addressed in the ED should be limited to those addressed in AASB 1049, subject to other decisions made at this meeting. Other projects that could result in improvements to the quality of financial reporting by entities within the GGS, currently identified on the AASB's work program, should be commenced as soon as practicable; and
- (i) the ED should take the form of a stand-alone draft Standard that incorporates relevant ABS GFS Manual principles so that direct references to the requirements in the ABS GFS Manual are avoided.

The Board also decided:

- (a) that the Basis for Conclusions to accompany the ED should be fulsome by providing an historical perspective to the Board's decisions; and
- (b) to reconfirm its earlier decision in relation to an entity within the GGS's investment in PNFC and PFC sector entities. In particular, entities within the GGS should continue to be subject to AASB 127 *Consolidated and Separate Financial Statements* and that sector information should not be proposed to be required to be disclosed.

Action:

Staff

Other Business

Agenda Item 16

The Board had before it:

- (a) a list of current and expected shortly IASB/IPSASB/NSS/IASCF documents open for comment, as at 12 April 2010 (Agenda paper 16.1);
- (b) *FRSB Alert* by Clive Brodie, FRSB Senior Project Manager – Accounting Standards (Summary as at 25 March 2010) (Agenda paper 16.1);
- (c) a letter from John Bills, Director, Australian Equipment Lessor Association to Kevin Stevenson, AASB Chairman, dated 19 March 2010 and response dated 1 April 2010 (Agenda paper 16.3); and
- (d) a letter from The Hon Chris Bowen, Minister for Human Services, Minister for Financial Services, Superannuation and Corporate Law to Kevin Stevenson, AASB Chairman dated 23 February 2010 and response dated 29 March 2010 (Agenda paper 16.4).

The Board noted the correspondence.

SUBMISSIONS

The Board agreed to request that submissions from constituents on its future consultative documents be lodged with the AASB electronically, and that submissions received will be posted on the AASB website shortly after the closing date for comment.

Close of Meeting

The Chairman closed the meeting at 4.15 p.m. on Thursday 29 April 2010.

Approval

Signed by the Chairman as a correct record
this seventeenth day of May 2010