Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the 100th meeting of the AASB
Venue:	Ken Spencer Room, AASB offices Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 29 July 2009 from 9.00a.m. to 5.45 p.m. Thursday 30 July 2009 from 8.30a.m. to 4.00 p.m.

All agenda items except items 1, 17, 18 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Glenn Appleyard (Day 1) Victor Clarke Sue Highland Mark Jenkin Ian McPhee John O'Grady Frank Palmer Kris Peach Joanna Perry Bruce Porter Brett Rix Robert Williams
Apologies	Glenn Appleyard (Day 2)
In Attendance	Peter Batten IPSASB member (Agenda items 3, 10 and 14) Peter Gibson (Dept of Finance and Deregulation) (Agenda item 14) Mike Loudon (Dept of Finance and Deregulation) (Agenda item 14) Paul Madden (Standard Business reporting) (Agenda item 6)
Staff	Dean Ardern (in part) Natalie Batsakis (in part) Maybelle Chia (in part) Ahmad Hamidi (in part) Geoff Harris (in part) Jessica Lion (in part) Robert Keys Christina Ng (in part) Latif Oylan (in part) Jim Paul (in part) Chris Pang (in part) Joanna Spencer Angus Thomson Raymond Yu (in part) Staff from the NZ FRSB dialled into the meeting for Agenda items 3, 4, 5, 7, 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 ninety-ninth meeting held on 24-25 June 2009.

Chairman's Report

Agenda Item 2

The Board welcomed Kevin Stevenson to his first meeting as Chairman of the AASB and Kevin in turn thanked Bruce Porter for his work as Acting Chairman for the past eight months.

The Chairman thanked Sue Highland for organising a series of interviews in Brisbane with Queensland public sector constituents.

Differential Reporting

Agenda Item 3

The Board had before it:

(a) a memorandum from Kevin Stevenson and Ahmad Hamidi dated 14 July 2009 (Agenda paper 3.1);

(b) staff paper: Proposed Revised Differential Reporting Regime: Tentative Board Decisions to Date (Agenda paper 3.2);

(c) staff paper: The Reporting Entity Concept and its Application (Agenda paper 3.3); and

(d) staff paper: Determining the Alternative Regime to the IFRS for SMEs (Agenda paper 3.4).

The Board clarified that an alternative regime to the IFRS for SMEs is intended to be a 'substitute' for the IFRS for SMEs rather than constituting a 'third tier' of reporting requirements. Members did not reach a consensus view on the extent and nature of disclosures under the alternative regime. Some argued that the level of disclosure under the alternative regime should not be less comprehensive than that under the IFRS for SMEs if the alternative regime is to result in GPFSs. Others were of the view that such disclosure both in extent and nature would be burdensome for some of the entities the alternative regime is intended to cater for. For example, it was argued that if disclosures similar to related party disclosures under the IFRS for SMEs are included in the alternative regime, wholly owned subsidiaries would regard them as onerous. It was concluded that further consultation with constituents on the issue of the alternative regime and other issues of strategic significance in regard to the proposed revised differential reporting regime is necessary at this stage of the project. The Board tentatively decided that:

(a) the 'reporting entity' concept should be retained as an umbrella concept to distinguish between entities that the Board believes should prepare general purpose financial statements and entities that need not (non-reporting entities). The reporting entity concept could also play a role as a principle guiding regulators in determining entities that would be required to report (and those that would not) within the Australian financial reporting framework. The Board considered that extensive dialogue with regulators would be needed to help ensure consistent application of the principle. In due course, the concept could be reviewed, pending developments in regulation. Nevertheless, the

Board was of the view that it needs to proceed with its thinking about how to operationalise the concept and what an entity should be required to do when regulators require it to produce financial reports in accordance with accounting standards, or an entity elects to so do; and

(b) staff should prepare a 'white paper' articulating the overall policy and technical issues involved in the project. A draft of the paper will be discussed at a forthcoming Board meeting.

The Board also approved a staff paper, which outlines the Board's current thinking on differential reporting issues, to be provided to the FRC in respect of its differential reporting workshop in August 2009.

Action: Staff

Financial Instruments – Derecognition

Agenda Item 4

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 22 July 2009 (Agenda paper 4.1);

(b) a draft AASB submission to IASB Exposure Draft ED/2009/3 *Derecognition (Proposed Amendments to IAS 39 and IFRS 7)* (Agenda paper 4.2); and

(c) Constituent responses (Agenda paper 4.3).

The Board reviewed submissions on ED 177 *Derecognition (Proposed Amendments to AASB 139 and AASB 7)*, which includes the IASB's ED/2009/3 *Derecognition (Proposed Amendments to IAS 39 and IFRS 7)*. ED 177 considers two approaches (proposed and alternative) to replace the existing derecognition requirements. The Board considered and approved a draft submission to the IASB and emphasised its support for the alternative approach because it is consistent with the *Framework*. The Board expressed the view that the alternative approach should be developed further for constituent comment.

In addition, the Board has a number of practical application concerns with the proposed approach such as:

(a) the definition of 'transfer' is too broad and may result in unintended consequences;

(b) the manner in which a derivative may affect the entity's continuing involvement in the derecognised asset is not clear – the Board considers there to be insufficient guidance to assess this relationship;

(c) the interaction between the requirements in the proposed approach and other IFRSs is not clear - for example, other standards do not require the assessment of whether an asset can be transferred or restrictions on transfers of assets in assessing whether an asset should be derecognised;

(d) the perception that the 'continuing involvement test' is a proxy for the risks and rewards test, and therefore that the IASB has not achieved its objective of developing a derecognition model based on a single concept of control;

(e) whether the proposals in paragraph 22A regarding the proposed accounting for interests purchased in a transferee are operational; and

(f) the extensive disclosure requirements that require an entity to report on instruments that are no longer recognised by the entity, which may be interpreted as a substitute for a robust derecognition model.

Action: Staff

Financial Instruments – Own Credit Risk in Liability Measurement

Agenda Item 5

The Board had before it:

(a) a memorandum from Raymond Yu and Maybelle Chia dated 21 July 2009 (Agenda paper 5.1);

(b) an issues paper for DP 2009/2 *Credit Risk in Liability Measurement* (Agenda paper 5.2);

(c) ITC 21 Request for Comment on IASB Discussion Paper DP/2009/2 *Credit Risk in Liability Measurement* (Agenda paper 5.3); and

(d) email correspondence with Wayne Upton dated 16 July 2009 (Agenda paper 5.4).

The Board reviewed Agenda Paper 5.2, which outlines a number of issues relevant for the Board's consideration for drafting its submission to the IASB.

The Board's tentative view is that its submission should reflect that the treatment of credit risk in measuring liabilities depends on the relevant measurement models used.

A detailed list of decisions and points raised on the issues in Agenda Paper 5.2 is included in Attachment A.

The Board agreed to finalise the submission out-of-session.

Action:	Staff Members

Standard Business Reporting

Agenda Item 6

The Board had before it:

(a) a memorandum from Geoff Harris dated 14 July 2009 (Agenda paper 6.1); and

(b) a paper from the Standard Business Reporting Initiative (Agenda paper 6.2).

The Board received a briefing from Paul Madden, Program Director, Standard Business Reporting (SBR) Initiative, on the purpose and objectives of the Initiative, which involves the flow of information, including financial report information, to government.

The Board noted:

(a) the agencies directly engaged in the Program;

(b) the current procedures in place for the development of the Australian taxonomy and quality assurance process adopted for the Program;

(c) development of the Australian financial reporting taxonomy is an ongoing process to incorporate changes;

(d) the Australian taxonomy provides data fields for Australian specific disclosures by for-profit entities and will be extended for not-for-profit entity disclosures; and

(e) the SBR will be available for use for corporate reporting from 1 July 2010.

Financial Instruments – IAS 39

Agenda Item 7

Impairment – Expected Loss Model

The Board had before it:

(a) a memorandum from Christina Ng dated 22 July 2009 (Agenda paper 7.1);

(b) IASB Request for Information *Impairment of Financial Assets: Expected Cash Flow Approach* (Agenda paper 7.2);

(c) IASB May Agenda Paper 5A – Amortised Cost – an expected cash flow approach (Agenda paper 7.3);

(d) IASB May Agenda Paper 5D – Comparison between possible impairment approaches (Agenda paper 7.4);

(e) a memorandum from Natalie Batsakis dated 22 July 2009 (Agenda paper 7.5); and

(f) IASB Exposure Draft ED/2009/7 *Financial Instruments: Classification and Measurement* (Agenda paper 7.6).

The Board considered IASB Request for Information *Impairment of Financial Assets: Expected Cash Flow Approach (Expected Loss Model)*. The Board directed staff to seek constituents' views in preparing a submission on the IASB Request, particularly since the IASB's Request for Information focuses on the feasibility aspects of an expected cash flow model and not the accounting aspects.

The Board noted that it wishes to encourage constituents who directly work with expected cash flow models to provide comments directly to the IASB or contact the AASB to assist in making a submission.

Comments on the IASB Request are due by 14 August 2009 to the AASB and 1 September 2009 to the IASB. Consequently, the Board will approve the final wording of its submission out of session.

Action: Staff
Mr Clarke

Classification and Measurement

The Board considered AASB staff preliminary views on ED 184 *Financial Instruments: Classification and Measurement*, which includes the IASB's ED/2009/7 *Financial Instruments: Classification and Measurement*.

The Board made the following preliminary decisions:

(a) in the long term, the Board may, support after appropriate due process, a full fair value model being applied to all financial instruments. However in the short term and in particular in the current economic climate, the Board acknowledges that the amortised cost measurement model remains beneficial and should be retained where it reflects the entity's business model and risk management practices (that is, the intention to recover the value of the instrument from the contractual cash flows and not from trading and realising fair value gains);

(b) there should not be an option to classify and measure non-traded equity instruments at fair value through other comprehensive income. However, if this option is retained then that should be in its current proposed form (that is, dividend income through other comprehensive income, no impairment and no recycling);

(c) there should be a one-way irrevocable option to reclassify into the fair value through profit or loss category at any time;

(d) whilst the elimination of the bifurcation rules adds to the simplicity of the amendments, the Board acknowledges that this may require the reclassification of a number of loans and receivables to fair value through profit or loss depending on the nature of the embedded derivative and also that embedded derivatives may be measured differently depending on the nature of the financial host contract. The Board considers that a bifurcation option should be available for entities that wish to separate embedded derivatives from financial host contracts for risk management purposes; and

(e) a level 3 fair value measurement (based on unobservable inputs) should provide more decision useful information than a measurement at cost. Therefore, the Board supports the removal of the cost exemption for equity instruments that do not have a quoted market price and whose fair value cannot be determined reliably.

Comments on the ED are due by 17 August 2009 to the AASB and 14 September 2009 to the IASB. Consequently, the Board will approve the final wording of its submission out of session, after which the submission will be placed on the AASB website.

Action:	Staff Members

IPSASB/IFRS Convergence

Agenda Item 8

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 16 July 2009 (Agenda Paper 8.1);

(b) draft AASB submission to the IPSASB on Exposure Drafts ED 37 *Financial Instruments: Presentation*, ED 38 *Financial Instruments: Recognition and Measurement* and ED 39 *Financial Instruments: Disclosures* (Agenda paper 8.1A);

(c) a memorandum from Natalie Batsakis and Jim Paul dated 29 July 2009 (Agenda paper 8.1B – tabled);

(d) a memorandum from Dean Ardern dated 22 July 2009 (Agenda paper 8.2);

(e) a draft AASB submission to the IPSASB on Exposure Draft ED 40 *Intangible Assets* (Agenda paper 8.2A);

(f) memorandum from Natalie Batsakis dated 16 July 2009 (Agenda paper 8.3); and

(g) draft AASB submission to the IPSASB on Exposure Draft ED 41 *Entity Combinations* (Agenda paper 8.3A).

ED 38 Financial Instruments: Presentation, Recognition and Measurement, and Disclosures

In relation to the draft submission, the Board decided to propose that:

(a) if an issuer of financial guarantee contracts arising from either exchange or non-exchange transactions has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, it should be permitted to apply to such financial guarantee contracts either the IPSAS equivalent to IAS 39 (developed from ED 38) or the relevant international or national accounting standards dealing with insurance contracts. However, application of national accounting standards dealing with insurance contracts should be permitted only if they contain a liability adequacy test consistent with that contained in IFRS 4 *Insurance*

Contracts, and until there is an IPSAS equivalent to IFRS 4. In addition, the election for each such contract should be irrevocable;

(b) all financial guarantees accounted for under the IPSAS equivalent to IAS 39 should, on initial recognition, be measured in accordance with that IPSAS, not IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. This should apply regardless of the nature of the available evidence of fair value;

(c) the guidance in the IPSAS equivalent to IAS 39 (that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value is evidenced by observable market data) should be restricted to financial instruments created through exchange transactions. Therefore, the fair value of financial instruments created through non-exchange transactions should be capable of differing from transaction price on the basis of Level 3 measurement inputs;

(d) the interaction of the IPSAS equivalent to IAS 39 and IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to the initial and subsequent recognition and measurement of financial liabilities arising from non-exchange transactions should be clarified. For example, for some non-exchange transactions, application of IPSAS 23 would give rise to a different conclusion from ED 38 on whether a liability arises, and it should be clarified whether IPSAS 23 should be applied only to the initial determination of whether a liability exists, or for subsequent determinations also; and

(e) the inconsistencies between the proposed measurement bases for initial and subsequent measurement of financial assets and financial liabilities arising from non-exchange transactions should be reviewed and, if possible, removed. The IPSASB proposed that such financial assets and financial liabilities should initially be measured under IPSAS 23, and should subsequently be measured under ED 38 (for example, directly attributable transaction costs would be excluded from the initial measurement of such financial assets but included in their subsequent measurement if they are subsequently measured at amortised cost). One means of avoiding inconsistency would be to amend IPSAS 23 (paragraphs 42 and 57) to specify that, on initial recognition, financial assets and financial liabilities arising from non-exchange transactions should be measured in accordance with the IPSAS developed from ED 38.

The Board approved the submission, subject to the Chairman's review.

ED 40 Intangible Assets

The Board discussed the issues raised in Agenda Paper 8.2 and decided:

(a) to confirm that its submission on ED 40 should not specifically comment on the proposal that revaluation increments and decrements should be offset on an asset-by-asset basis, because the Board's agreement with the proposed treatment is indicated implicitly by the comment (in the third paragraph of the submission) that "The AASB supports the proposals in ED 40, except for its concerns noted below.";

(b) to ask the IPSASB to clarify the circumstances in which, on first-time adoption of the proposed IPSAS, an entity might measure at fair value an intangible item that previously had been expensed but currently meets the Standard's criteria for recognition;

(c) to confirm the comment in the draft submission that the Board notes that some editorial issues arise with ED 40; and

(d) with respect to use of the term 'commercial' in ED 40, to ask whether the term is generally appropriate in a public sector not-for-profit context. The Board disagreed with the suggested alternative terms 'normal', 'full-scale' and 'on-going', and decided to suggest that the IPSASB considers using terms such as 'planned' or 'commissioned' instead.

The Board approved the draft submission on ED 40, subject to the above decisions and final clearance by the Chairman.

ED 41 Entity Combinations from Exchange Transactions

The Board decided to comment that the proposed replacement of 'business' with 'operation' could have the unintended consequence of including acquisitions of groups of assets, notwithstanding scope paragraph 3(c) of ED 41.

The Board approved the draft submission on ED 41, subject to the Chairman's review.

Action: Staff
Chairman

Presentation & Disclosures by Private Sector Not-for-Profit Entities

Agenda Item 9

The Board had before it:

(a) a memorandum from Robert Keys, Christina Ng and Maybelle Chia dated 15 July 2009 (Agenda paper 9.1); and

(b) a project proposal on presentation and disclosures by private sector not-for-profit entities (including charities) (Agenda paper 9.2).

The Board considered the agenda papers and decided to initiate an active project 'Disclosures by Private Sector Not-for-Profit Entities'.

Initially, the project should focus on disclosures Australian Accounting Standards do not currently require of private sector not-for-profit entities that should be required; having regard to the information needs of users of general purpose financial statements. In the first instance, consideration should be given to work being undertaken by the International Public Sector Accounting Standards Board and the New Zealand Financial Reporting Standards Board on service performance reporting (in particular, Technical Practice Aid TPA-9 *Service Performance Reporting*). Consideration should also be given to the IASB's work on Management Commentary. The intention is that this aspect of the project has a 12-month timeframe.

The Board expressed its desire to not increase the disclosure burden on not-for-profit entities and decided the project should also consider whether there are any existing disclosure requirements in Australian Accounting Standards for which the information provided to users might not be justifiable from a cost/benefit perspective.

The project should involve ongoing consultation with constituents rather than a series of consultation documents.

In addition, the Board noted that its work on this project might lead to it undertaking further work on the presentation of financial statements, such as the structure of the statement of comprehensive income.

Action: Staff

GAAP/GFS – Entities with the GGS

Agenda Item 10

The Board had before it:

(a) a memorandum from Robert Keys, Latif Oylan and Chris Pang dated 15 July 2009 (Agenda paper 10.1);

(b) a draft paper *Progress Report on the AASB's GAAP/GFS Harmonisation Project* for the purpose of informing Financial Reporting Council (FRC) members (Agenda paper 10.2); and

(c) a paper articulating Glenn Appleyard's alternative view (Agenda paper 10.3).

The Board considered the agenda papers and confirmed its June 2009 decision that, based on its consideration of responses to ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*, its preference is to not proceed with Phase 2 of the GAAP/GFS Harmonisation project. Accordingly, the Board decided that the *Progress Report* should ask the FRC to reconsider its broad strategic direction in relation to financial reporting by entities within the GGS, on the basis that the AASB has significant reservations about the usefulness of the proposed incorporation of GFS presentation and classifications into the general purpose financial statements of entities within the GGS.

The Board decided that the draft *Progress Report*:

(a) should not refer to the conceivable alternative approach to ED 174 of deferring completion of Phase 2 of the GAAP/GFS Harmonisation project pending the outcome of the post-implementation review of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, because that post-implementation review is unlikely to throw significant further light on the issues;

(b) should acknowledge in paragraph 15 that a possible alternative approach to ED 174, would be to not impose GAAP/GFS harmonisation requirements on entities within the GGS, but instead to issue non-mandatory guidance (based on the proposals in ED 174) that could be used if a jurisdiction/entity elects to present GAAP/GFS harmonised general purpose financial statements. Furthermore, the tail of paragraph 15 should be replaced with a statement along the lines of "Board members expressed a variety of views on these alternatives";

(c) should be amended to avoid a dogmatic tone (e.g. "there is no evidence", "unable to find evidence" and "most constituents expressed the view that …"). The relevant text should be replaced with more generic phraseology (e.g. "AASB has reservations about …" and "some constituents expressed the view that …");

(d) should note that a significant majority (11 out of 13) of Board members expressed a preference for the Board not to proceed with Phase 2 of the GAAP/GFS Harmonisation project; and

(e) should not include the appendix, because the appendix might distract the reader from the message included in the body. Instead the body of the *Progress Report* should include some of the more significant points noted in the appendix, to give them greater prominence. For instance, the comment that the Board has more urgent priorities in relation to public sector financial reporting, including control in the public sector and accounting for administered items, should be included in the body of the paper.

Subject to the draft *Progress Report* being amended to reflect the above decisions, the Board agreed it should be finalised through the Chairman out-of-session.

Action: Staff
Chairman

Interpretations

Agenda Item 11

The Board had before it:

(a) a memorandum from Joanna Spencer dated 28 July 2009 (Agenda paper 11.1 - tabled);

(b) a paper: Interpretation issues in progress (IFRIC and domestic topics as at 28 July 2009 (Agenda paper 11.2 - tabled);

(c) a memorandum from Joanna Spencer dated 15 July 2009 re status of IFRIC and IASB staff papers (Agenda paper 11.3);

(d) a memorandum from Dean Ardern dated 22 July 2009 (Agenda paper 11.4);

(e) draft AASB submission on the IASB's Exposure Draft ED/2009/4 *Prepayments of a Minimum Funding Requirement* (proposed amendments to IFRIC 14) (Agenda paper 11.4.1);

(f) AASB Exposure Draft 182 *Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14] (Agenda paper 11.4.2);

(g) submissions on ED 182 to IASB on Exposure Draft ED/2009/4, (Agenda paper 11.4.3);

(h) a memorandum from Joanna Spencer dated 28 July 2009 re IFRIC agenda decisions (Agenda paper 11.5 - tabled); and

(i) *IFRIC Update* July 2009 (Agenda paper 11.5.1).

Interpretation issues in progress

The Board reviewed the Interpretation issues in progress and noted that three new topics were discussed at the July 2009 IFRIC meeting, and that the issue of a debt to equity swap in a restructuring would be discussed at a special IFRIC meeting with a view to issuing a Draft Interpretation.

Status of IFRIC and IASB Staff papers

The Board discussed the status of IFRIC and IASB staff papers and *Updates* and noted the nature of the disclaimers in these documents. The Board noted that on occasion, different disclaimers are used (explaining that the papers are not authoritative) and asked staff to contact the IFRIC/IASB to determine if there was any particular reason why this is so. The Board also decided its forthcoming Statement on *Policies and Processes* should include the Board's policy that AASB staff papers are not authorative.

Exposure Draft ED/2009/4 Prepayments of a Minimum Funding Requirement (proposed amendments to IFRIC 14)

The Board considered Agenda Paper 11.4 and decided to support the IASB's proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

The Board considered the draft AASB submission contained in Agenda Paper 11.4.1 and decided that the third paragraph should be deleted because the applicability of the proposed amendments to IFRIC 14 should be determined on a case-by-case basis and in accordance with the particular circumstances.

The Board approved the draft submission on Exposure Draft ED/2009/4, subject to the above decisions and final clearance through the Chairman.

Tentative and Final IFRIC Agenda Decisions

The Board reviewed the IFRIC's tentative and final agenda decisions from its July 2009 meeting and decided not to comment on any of those decisions.

Action: Staff
Chairman

Income Tax

Agenda Item 12

The Board had before it:

(a) a memorandum from Jessica Lion and Siva Sivanantham dated 15 July 2009 (Agenda paper 12.1);

(b) version 1 of the covering letter, based on staff's understanding of the June 2009 Board decisions (Agenda paper 12.2A);

(c) version 2 of the covering letter, expressing broad support for the proposals (Agenda paper 12.2B);

(d) version 3 of the covering letter, expressing support for the IASB undertaking a short term income tax project and noting the AASB's significant concerns with the proposals (Agenda paper 12.2C - tabled);

(e) draft AASB submission to IASB ED/2009/2 *Income Tax* (excluding covering letter) (Agenda paper 12.3);

(f) submissions received by AASB on ED 178 *Income Tax* (Agenda paper 12.4 – submissions 1-3, and submission 4 - tabled);

(g) NZ FRSB (draft) submission (Agenda paper 12.5); and

(h) summary of submissions to AASB (Agenda paper 12.6).

The Board considered the agenda papers and, in relation to the draft submission regarding ED/2009/2, decided:

(a) the submission should include version 3 (agenda paper 12.2C) of the covering letter as it best reflects the AASB's support for clarifying IAS 12 *Income Taxes* and achieving IFRS/US GAAP convergence. However, the draft covering letter should:

(i) be amended to more strongly emphasise the Board's fundamental concerns regarding:

- the complexity of the amendments proposed in the ED;
- some significant technical matters;
- in light of recent economic events, the project's timing;

(ii) state that the AASB thinks the IASB should reconsider whether it is still appropriate for improvements to IAS 12 to be prioritised ahead of other projects; and

(iii) note that, given the history of the debates over income tax accounting, the AASB thinks that in due course a more fundamental longer-term review should be considered. In the meantime, and in the context of the short-term convergence project, the AASB thinks the IASB's focus should remain on removing, where appropriate, exceptions from the temporary difference model, so that it is both simplified and relevant to the planned US GAAP/IFRS convergence;

(b) the comment under Question 1 of the draft submission in relation to ''Recovery through use' needs to be clarified' and should be brought forward in the submission to better show its association with the comments under the heading 'Assumption of recovery through sale is inappropriate'. Furthermore, comments on 'management intention' should be accompanied by a reference to the term and notion of the 'business model' used in the IASB ED/2009/7 *Financial Instruments: Classification and Measurement* because 'business model' arguably better reflects the IASB's intended meaning;

(c) comments under Question 4 of the draft submission, regarding the exemption for foreign entities, should:

(i) note that, despite the proposed exemption from recognition of deferred tax on complexity grounds, the disclosures that are required in relation to foreign investments can be equally complex; and

(ii) include examples that illustrate how the meaning of 'foreign' is unclear in practice. For example, under the current proposals, it is unclear whether 'foreign' is intended to be considered from a country or regional/union (e.g. Europe) perspective and whether it is relative to an immediate parent or ultimate parent;

(d) comments under Question 5B of the draft submission, regarding the measurement of uncertainty, should be amended to elaborate on the AASB's concerns about the lack of 'consistency' in the proposals and whether uncertainty should be treated consistently for both assets and liabilities. The IASB should clarify whether it intends treating uncertainty as a recognition or measurement issue and how the treatment of uncertainty relates to notions of 'best estimate' and 'probability weighted average';

(e) comments under Question 7 of the draft submission, regarding measuring uncertain tax positions using a probability weighted average approach, should include suggestions to the IASB that 'remote' probabilities be excluded from the determination of income tax if the IASB decides to proceed with this proposal. Furthermore, the submission should make reference to the AASB's previous comments to the IASB in its submission on the proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in 2005 that, unless the measurement basis is clearly defined as being fair value, a probability-weighted average approach would not necessarily provide, without significant disclosure, useful information in situations where normally there are binary outcomes; and

(f) the first paragraph under Question 13A of the draft submission, relating to the allocation of tax to components of comprehensive income and equity, should be amended to read 'The AASB does not agree with the proposed approach.' The remainder of the comment should be amended to ensure it is not inconsistent with that revised first sentence.

Apart from the above decisions, the Board decided that the draft submission reflects its views on the IASB ED proposals. Ms Perry asked that her disagreement with the Board's comments on Question 1, under the heading 'Assumption of recovery through sale is inappropriate', be explicitly noted in these minutes.

The Board agreed that the submission should be finalised out of session by the Sub-committee comprising Mr Porter and Ms Peach and the Chairman.

Action: Staff
Mr Porter
Ms Peach
Chairman

Fair Value Measurement

Agenda Item 13

The Board had before it:

(a) a memorandum from Natalie Batsakis and Jim Paul dated 23 July 2009 (Agenda paper 13.1);

(b) Presentation slides – Fair Value Measurement (Agenda paper 13.2);

(c) a staff issues paper on IASB Exposure Draft ED/2009/5 *Fair Value Measurement* (Agenda paper 13.3);

(d) IASB Exposure Draft ED/2009/5 *Fair Value Measurement* (Agenda paper 13.4); and

(e) AASB submission to IASB Discussion Paper: *Fair Value Measurement* in May 2007 (Agenda paper 13.5).

The Board considered AASB staff preliminary comments on ED 181 *Fair Value Measurement*, which incorporates the IASB's ED/2009/5, for the purpose of drafting its submission to the IASB. The Board made a number of tentative decisions about its draft submission that are outlined in Attachment B.

The Board directed the staff to prepare a draft submission incorporating its tentative decisions. It intends to finalise its submission out of session, after considering constituent comments. The due dates for submissions are 28 August 2009 (to the AASB) and 28 September 2009 (to the IASB).

Action:	Staff Chairman

Emissions Trading

Agenda Item 14

The Board had before it presentation slides from the Department of Finance and Deregulation on Accounting for an Emissions Trading Scheme (Agenda paper 14.1 – tabled).

The Board received an education session from Mike Loudon and Peter Gibson from the Australian Government's Department of Finance and Deregulation on accounting for an Emissions Trading Scheme from the issuer's perspective. The presenters noted that the government's initial thoughts are that:

(a) the proposed emissions trading scheme imposes a tax on participants and the emission permits are tax credits;

(b) when permits are issued, the government would recognise a liability and/or a cash receipt or expense depending on whether the permits were sold or granted;

(c) the revenue from the permits would be recognised as the emissions occur, and that there are differing views as to how this revenue would be measured. One alternative is to measure the revenue at the fair value of the permits at the time of recognition, consistent with AASB 1004 *Contributions* and current GFS accounting, however, it may give rise to a mismatch between the offsetting of the liability and revenue. The other alternative is to measure the revenue at the amount relevant when the permits were issued, which is not consistent with current GFS; and

(d) there are still issues to be addressed such as, the standard setters have yet to issue any documents for discussion, the GFS final position has not been established (beyond agreeing that the receipts from the scheme will be taxes), and the legislation has yet to be passed by the Australian parliament.

Policy for Modifying IFRSs for Not-for-Profit Entities

Agenda Item 15

The Board had before it:

(a) a memorandum from Angus Thomson dated 15 July 2009 (Agenda paper 15.1);

(b) a memorandum from Patricia McBride to FRSB members dated 7 July 2009 (Agenda paper 15.2);

(c) New Zealand and Australian comment letters on ITC 14A FRSB and AASB Working Draft Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP (Agenda paper 15.3); and

(d) ITC 14A (Agenda paper 15.4).

The Board considered the responses received on the draft *Process for Modifying, or Introducing Additional Requirements to, IFRSs for PBE/NFP*, issued for comment jointly with the FRSB. Consistent with the decisions of the FRSB, the Board agreed that the draft be revised for comments received that are compatible with the overall approach proposed, and that the more fundamental issues raised by some constituents be considered in the context of discussions about the Board's strategies. A revised draft *Process* will be considered at the September meeting.

Action: Staff

Annual Improvements

Agenda Item 16

The Board had before it:

(a) a memorandum from Geoff Harris dated 21 July 2009 (Agenda paper 16.1);

(b) an extract from IASB Ballot draft *Annual Improvements Process* [Confidential] (Agenda Paper 16.2); and

(c) IASB Annual Improvements (extract from Observer Notes of July 2009 meeting sourced from www.iasplus.com (Agenda paper 16.3 – tabled).

The Board was advised that the IASB is expected to issue an Exposure Draft in August 2009 in relation to 2009-10 *Improvements to IFRSs* and of the items which are likely to be the subject of proposals in the forthcoming Exposure Draft.

The Board noted that the IASB proposes an amendment to IAS 34 *Interim Financial Reporting* to emphasise its disclosure principles and that the IASB's Exposure Draft *Fair Value Measurement* issued in May 2009 proposes that all of the fair value measurement disclosures required in IFRS 7 *Financial Instruments: Disclosures* for annual financial statements be also required for interim financial statements. The Board decided to include its views on this proposal in its submission to the IASB on the Exposure Draft *Fair Value Measurement* rather than in any submission it might make in respect of the IASB's annual improvements program.

The Board agreed to issue the IASB Exposure Draft as soon as practicable after the IASB has issued its Exposure Draft.

Action: Staff

Other Business

Agenda Item 17

The Board had before it:

(a) the AASB ‘pipeline document’ (Agenda paper 17.1);

(b) AASB submission to the IPSAS on Exposure Draft ED 36 *Agriculture* (Agenda paper 17.2);

(c) a letter to Bruce Porter, Acting Chair, AASB from HoTARAC, dated 29 June 2009, re IPSAS ED 36 *Agriculture* (Agenda paper 17.3);

(d) a letter from Grant Thornton, dated 30 June 2009, re IFRS for SMEs (Agenda paper 17.4);

(e) a copy of a letter from Angus Thomson, Technical Director AASB to Olivier Servais, IASB, dated 30 June 2009, re Due Process Handbook for XBRL Activities (Agenda paper 17.5);

(f) a letter from Volkers Aeuckens, Manager, Water Accounting Standards Board, dated 26 June 2009 re proposed meeting to discuss developments in national water accounting standards (Agenda paper 17.6);

(g) AASB submission to the IASB on Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers* (Agenda paper 17.7);

(h) written submissions to the AASB on ITC 20 Request for Comment on IASB Discussion Paper DP/2009/1 *Leases – Preliminary Views* (Agenda paper 17.8);

(i) FRSB Alert (July 2009) (Agenda paper 17.9);

(j) AASB submission to the IASB on Discussion Paper DP 2009/1 *Leases – Preliminary Views* (Agenda paper 17.10);

(k) a copy of a letter from Kevin Stevenson, Chair, AASB and Joanna Perry, Chair, FRSB, to Wayne Upton, Director of International Activities, IASB, dated 20 July 2009 re Key Management Personnel (Agenda paper 17.11 – tabled);

(l) AASB ED 185 *Rate-regulated Activities* issued July 2009 (Agenda paper 17.12 – tabled); and

(m) IFAC IPSASB meeting report from Washington DC 18-21 May 2009 (Agenda paper 17.13 – tabled).

The Board noted the correspondence.

Late-emerging IASB issues

Employee benefits discount rate

The Board noted that the IASB is considering a proposed amendment to IAS 19 *Employee Benefits* in respect of the discount rate applied to long-term employee benefit liabilities. The proposal is to remove reference to the government bond rate and require the use of a rate determined from the yield on high quality corporate bonds, however if there is no deep market in high quality bonds, entities would be required to estimate the rate for such bonds in all cases. The AASB agreed that it would expose any proposals that emerge from the IASB as soon as feasible and that its existing paragraph Aus78.1 in AASB 119 *Employee Benefits* that requires not-for-profit public sector entities to use of rate determined from the yield on government bonds would not be affected until a more fundamental review of that requirement is undertaken.

Rights issues in foreign currencies

The Board noted that the IASB is considering a proposed amendment to IAS 32 *Financial Instruments: Presentation* in respect of equity instrument rights issues denominated in a foreign currency. The AASB agreed that it would expose any proposals that emerge from the IASB as soon as feasible.

Action: Staff

Review

Agenda Item 18

The Board indicated that:

(a) staff need to draw attention to the key points for discussion to help focus the discussion. That is, staff should not necessarily run through a paper in order of the pages presented;

(b) when the Board considers submissions to the IASB/IFRIC/IPSASB, the discussion during the meeting should focus on the principles that are to be conveyed in the submission and that the actual details of the wording should be dealt with out of session, either through the whole Board or via a sub-committee; and

(c) consideration should be given to providing the facility for members to express dissenting views, in the context of the Australian legal framework.

The Board also discussed the timing of meetings and strategies that may be utilised to enable the Board to more effectively keep track of developments in IASB projects.

Action: Staff

Close of Meeting

The Chairman closed the meeting at 4.00 p.m. on Thursday 30 July 2009.

Approval

Signed by the Chairman as a correct record
this twenty-third day of September 2009

ATTACHMENT A

Financial Instruments – Own Credit Risk in Liability Measurement

Agenda Item 5

The Board considered Agenda Paper 5.2, and decided that the Board's submission to the IASB should:

(a) as a general comment note that:

  (i) the question about credit risk in measuring liabilities cannot be resolved without addressing measurement models;

  (ii) the AASB comments are not promoting any particular measurement model, and should be considered in the context of the existing mixed measurement model environment;

(b) in respect of Question 1:

  (i) comment that credit risk is sometimes incorporated into liability measurement, depending on the measurement model;

  (ii) replace the word 'implicit' to 'explicit' in the first sentence of paragraph 7 of Agenda Paper 5.2;

  (iii) note that there is no basis for specifically seeking to remove credit risk from a fair value measurement and leaving other market risk, for example, liquidity risk in the measurement;

(c) in respect of Question 2:

  (i) not comment in the manner proposed by staff because the Board views current measurements as those listed in paragraph 8 of the IASB Discussion Paper;

  (ii) comment that credit risk is sometimes incorporated into current measurement of liabilities, depending on the objective of the measurement model and to identify that an example of where credit risk is excluded in current measurement is fulfilment value, which might exclude credit risk conditional on the interest rate;

  (iii) comment that the AASB could not support specifically removing the impact of credit risk from a measurement model that inherently includes credit risk;

(d) in respect of Question 3:

incorporate the staff views and further note that it is difficult to obtain such information from credit default swaps as they are only available for a small portion of the market (large companies);

(e) in respect of Question 4:

incorporate the staff views that it does not support any of the three approaches outlined in the IASB staff paper as they deliberately set out to exclude credit risk from liability measurement.

ATTACHMENT B

Fair Value Measurement

Agenda item 13

The Board made the following tentative decisions about its draft submission to IASB ED/2009/5 *Fair Value Measurement*:

(a) agree, for the sake of clarity, with the ED's proposal to define 'fair value' as an exit price. However, the IASB should be asked to clarify the implications of this definition for the references to fair value in, for example, IAS 16 *Property, Plant and Equipment* and IFRS 3 *Business Combinations*. In particular, the IASB should be asked whether depreciated replacement cost can continue to be used to measure particular items of revalued property, plant and equipment and individual assets that are part of a group of assets;

(b) ask the IASB to explicitly clarify whether estimated cash flows should reflect entity-specific efficiencies or inefficiencies in estimating the fair value of performance obligations (e.g. asset retirement obligations) at Level 3 of the fair value hierarchy. The Board noted that:

  (i) the ED says that, to measure the fair value of specialised assets, the market participant buyer steps into the shoes of the entity holding those specialised assets (Basis for Conclusions, paragraph BC61); and

  (ii) the corollary argument that the market participant transferee of a liability steps into the shoes of the entity owing that liability, notwithstanding the comment in paragraph BC52 that "although an entity might have entity-specific advantages or disadvantages that enable it to fulfil a liability more or less efficiently than other market participants, those entity-specific factors do not affect fair value";

(c) agree with the proposals in the ED regarding circumstances in other IFRSs where the term fair value does not reflect the IASB's intended meaning, and either:

  (i) that term should be replaced in other IFRSs; or

  (ii) the items in question should be excluded from the scope of a fair value measurement standard,

  In addition, the IASB should consider the impact of the financial instrument classification and measurement project on the proposals in respect of the measurement of financial liabilities with a demand feature.

(d) express agreement with the proposals that:

  (i) a fair value measurement assumes the transaction price to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access; and

  (ii) in the absence of evidence to the contrary, an entity may assume that the principal market for the asset or liability is the most advantageous market, provided the entity can access the principal market;

(e) express agreement with the proposals that:

  (i) the entity should determine the assumptions that market participants would use in pricing the asset or liability; and

  (ii) market participants are as knowledgeable as the entity about the asset or liability, and therefore a fair value measurement does not reflect information asymmetry;

(f) comment that, in relation to assets not used for their highest and best use, the proposed separate disclosure of the existing-use market value and the excess of fair value over that existing use value would:

(i) be piecemeal (it would only apply to assets measured at fair value);

(ii) involve costs of obtaining dual valuations that are likely to exceed the benefits; and

(iii) require the underlying assets of investments in subsidiaries to be bifurcated into existing use market value and excess value.

In addition, the IASB could be asked to provide more complex examples of circumstances in which these disclosures would be made (for example, where land is not part of the group of assets being measured);

(g) support the proposed guidance on how to measure the fair value of liabilities;

(h) support the proposed treatment on measuring the fair value of an asset or liability on initial recognition when it differs from the transaction price. The Board noted the consequential amendments to IAS 39 which will allow a level 3 fair value measure that differs from the transaction price on initial recognition to be treated as fair value, and the deferral of any resulting gain or loss. The Board suggested consideration be given to asking the IASB whether it intends that, upon removing the cost exemption for investments in unlisted entities, any gain or loss would initially be deferred;

(i) express general agreement with the proposed guidance on valuation techniques, including specific guidance on markets that are no longer active, and request guidance on the use of pre-tax or post-tax cash flows when using the income approach to estimate the fair value of an asset or a liability;

(j) comment that the proposed disclosures are excessive for interim financial reports and inconsistent with the underlying disclosure principle in IAS 34 *Interim Financial Reporting* (that is, that significant changes be shown);

(k) encourage the IASB and FASB to work together to achieve fully converged Standards on fair value measurement, ideally by updating FASB Statement No. 157 *Fair Value Measurements*;

(l) express disagreement with using the definition of 'fair value' as the core principle of the proposed IFRS; and

(m) express disagreement with the discussion of 'deprival value' in the Basis for Conclusions and suggest that the comparison of fair value with deprival value should occur in the conceptual framework project.