



Subject: Minutes of the 104th meeting of the AASB

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

Time(s): Wednesday 3 February 2010 from 9.00 a.m. to 5.40 p.m.
Thursday 4 February 2010 from 8.30 a.m. to 3.40 p.m.

All agenda items except items 2 and 16 were discussed in public.

Attendance

Members Kevin Stevenson (Chairman)
Glenn Appleyard
Victor Clarke
Sue Highland (in part via phone)
Mark Jenkin
Ian McPhee
John O'Grady
Frank Palmer
Kris Peach
Joanna Perry (Day 2)
Bruce Porter
Brett Rix
Robert Williams

Apologies Joanna Perry (Day 1)

In Attendance Peter Batten (IPSASB Member) Agenda items 1, 3, 4 and 5

Staff Clark Anstis (in part)
Dean Arden (in part)
Maybelle Chia (in part)
Mischa Ginns (in part)
Ahmad Hamidi (in part)
Robert Keys
Christina Ng (in part)
Jim Paul (in part)
Siva Sivanantham (in part)
Joanna Spencer
Angus Thomson (in part)
Raymond Yu (in part)

Staff from the NZ FRBSB dialled into the meeting for Agenda Items 2, 5, 7, 8, 11, 12 and 13

Apologies, Agenda, Minutes, Matters Arising from Minutes and Declaration of Interests, Chairman's Report

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. No declarations of interest were made.

Minutes

The Board confirmed the minutes of the one hundredth and third meeting held on 9-10 December 2009.

Chairman's Report

The Chairman:

- (a) congratulated David Boymal on being awarded membership of the Order of Australia General Division in the Australia Day Honours List for service to accountancy and Joanna Perry and Warwick Hunt on being appointed Members of The New Zealand Order of Merit in the 2010 New Zealand New Year Honours;
- (b) welcomed new AASB staff members Mischa Ginns as Project Manager and Emma O'Brien as a Graduate Intern and informed the Board that 2009 Graduate Intern Chris Pang has left the AASB to take up a position with NSW Treasury;
- (c) informed the Board that the new Australian IPSASB member is Tim Youngberry from the Department of Finance and Deregulation;
- (d) noted that the AASB's video conferencing facilities to be upgraded, which should enable joint FRSB/AASB meetings, noting that it is planned to conduct the joint meeting in July 2010 via video-conference; and
- (e) tabled for member's information, a communications report outlining the liaison between staff and external parties, AASB media coverage and AASB website activity from 10 December 2009 to 2 February 2010.

Issues arising from FRC Direction

Agenda Item 2

The Board had before it a memorandum from Joanna Spencer dated 2 February 2010 (Agenda paper 2.1).

The Board discussed the memorandum which documents Board and member responsibilities in the context of processes to be applied when the Board has received a broad strategic direction. The Board noted the information in the memorandum will be useful in the context of any future consideration of standard-setting arrangements. Staff will, when priorities permit, continue to research the governance arrangements of other standard-setters.

Action:

Staff

GAAP/GFS Harmonisation for Entities within the GGS

Agenda Item 3

The Board had before it:

- (a) a memorandum from Robert Keys dated 20 January 2010 (Agenda paper 3.1);
- (b) Issues paper: GAAP/GFS Harmonisation: Entities within the GGS – Alternative approaches for issuing a Standard (Agenda paper 3.2);
- (c) Extract from 24-25 June 2009 AASB meeting approved minutes (for information) (Agenda paper 3.3);
- (d) the FRC's December 2009 Accompanying Paper 4(a)(ii) – being Don Challen's response to AASB progress report on GAAP/GFS harmonisation (a repeat of Tabled Agenda paper 20.3 of the AASB's December 2009 meeting, tabled after discussions at suggestion of FRC Chair) (Agenda paper 3.4); and
- (e) the FRC's December 2009 Agenda Item 4(a) – being the FRC Secretariat's cover note to the agenda item, entitled 'Public Sector Accounting: GAAP/GFS Harmonisation' (a repeat of Tabled Agenda paper 20.4 of the AASB's December 2009 meeting, tabled after discussions at suggestion of FRC Chair) (Agenda paper 3.5).

The Board considered the agenda papers, including the alternative approaches that might overcome its reservations about issuing a Standard based on the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*.

The Board did not favour a Standard that would specify the financial reporting if a jurisdiction or entity opted for GFS-harmonisation financial reporting at the level of an entity within the GGS (described as Approach A in Agenda paper 3.2).

The Board noted that the alternative approach (Approach B), recommended by staff in Agenda paper 3.2, is aimed at substantively improving the financial reporting of, and comparability between, entities within the GGS. The Board acknowledged that such a Standard might be justified if its aims can be met. The Board directed staff to further develop its recommendations for the content of a Standard focusing explicitly on improving the usefulness of general purpose financial statements of entities within the GGS, having regard to cost/benefit considerations and the Board's other projects. Matters to be considered include:

- (a) recognition and measurement (staff were asked to confirm the current requirements of the Commonwealth, States and Territories in relation to revaluations at the level of entities within the GGS);
- (b) disclosure (or presentation) of information relating to the classification of line items (e.g. transactions and other economic flows);
- (c) disclosure of budgetary information;
- (d) disclosure of disaggregated information;
- (e) disclosure of administered items; and
- (f) transitional requirements.

The Board noted that such a Standard would be significantly beyond the proposals of ED 174 and would most likely require further due process through an Exposure Draft if it is to proceed.

Action:

Staff

IPSASB

Agenda Item 4

The Board had before it:

- (a) a memorandum from Clark Anstis dated 20 January 2010 (Agenda paper 4.1); and
- (b) a report on the IPSASB's December 2009 meeting by Ken Warren, New Zealand member of IPSASB (Agenda paper 4.2).

The Board received an update on the December 2009 meeting of the IPSASB from Peter Batten, the Australian member of IPSASB up to the end of 2009. Mr Batten noted that the IPSASB approved five accounting standards for issue (covering financial instruments, intangible assets and improvements to IPSASs) and continued to develop its public sector conceptual framework. The IPSASB also discussed potential changes to its governance arrangements as well as its strategy and project priorities for the triennium 2010-2012. Those discussions will continue at its next meeting in April 2010.

Mr Batten also noted that the IPSASB will consider a revised proposed Standard on entity combinations at its next meeting for approval, and that an exposure draft concerning grantor accounting for service concession arrangements is expected to be finalised out of session and issued in February for public comment.

Board members discussed the significance of the IPSASB's work and considered that improved governance arrangements, funding and resourcing are essential to increased acceptance of IPSASB standards. The Board will consider how to provide more assistance to the IPSASB at its March 2010 meeting.

The Board requested staff to prepare an agenda paper in relation to the forthcoming exposure draft on service concession arrangements so that the Board can address its due process in relation to the exposure draft.

Action:

Staff

Work Program

Agenda Item 5

The Board had before it:

- (a) a list of current and expected shortly IASB/IPSASB/NSS/IASCF documents open for comment, as at 15 January 2010 (Agenda paper 5.1);
- (b) a memorandum from Clark Anstis dated 28 January 2010 (Agenda paper 5.2);
- (c) a letter from the Chairman of the Financial Reporting and Auditing Committee of the Australasian Council of Auditors-General to the AASB Chairman, dated 19 October 2009 (Agenda paper 5.3);
- (d) a further letter from the ACAG Committee, dated 18 November 2009, and reply from the AASB Chairman dated 23 November 2009 (Agenda paper 5.4);
- (e) a letter from the Secretary, Tasmanian Department of Treasury and Finance, on behalf of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), to the AASB Chairman, dated 27 November 2009 (Agenda paper 5.5); and

- (f) a letter from the Chair, Heads of Treasuries, dated 4 August 2009, and reply from the AASB Chairman dated 12 August 2009 (Agenda paper 5.6).

The Board considered the correspondence relating to possible public sector agenda items and noted that there are three common topics in the issues ranked most highly by the ACAG Committee and by HoTARAC: control in the public sector, non-exchange transactions (grants) and service concession arrangements. The Board noted that these topics have been included in the Board's active work program, and that each are now actively being pursued. The Board also noted that beyond those common topics there were a variety of issue nominated by the ACAG Committee and by HoTARAC that will require further consideration.

The Board decided to further consider public sector issues for its work program at its March 2010 meeting, in conjunction with discussion of the Board's planning for its technical activities.

Action:

Staff

Superannuation

Agenda Item 6

The Board had before it:

- (a) a memorandum from Dean Ardern dated 20 January 2010 (Agenda paper 6.1);
- (b) an issues paper that discusses staff's analysis and proposals in relation to the written comments received on ED 179 *Superannuation Plans and Approved Deposit Funds* that are directly related to a Specific Matter for Comment (Agenda paper 6.2);
- (c) an issues paper that discusses staff's analysis and proposals in relation to the comments received on ED 179 that are not directly related to a Specific Matter for Comment (Agenda paper 6.3);
- (d) a collation of respondents' written comments on ED 179 (Agenda paper 6.4); and
- (e) a revised proposed timetable for completion of a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 6.5).

The Board considered Agenda paper 6.1 and noted that APRA had deferred the update of its superannuation statistical collections and publications pending the outcome of the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation system (the Cooper Review). At its December 2009 meeting the Board decided to give further consideration to the outcomes from APRA's enhanced superannuation statistics collections proposals in respect of sub-fund information, and whether the principles and guidance in respect of segregated financial disclosures should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information. Despite APRA's deferral, the Board decided to commence redeliberations at a future meeting on the disclosure proposals in ED 179 in relation to segregated financial information.

The Board considered Agenda paper 6.2 and decided to reconsider the basis for measuring defined benefit members' accrued benefits. The Board decided that, rather than identifying the overriding measurement objective for defined benefit members' accrued benefits as fair value, the replacement Standard for AAS 25 should:

- (a) require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations. Accordingly, an obligation for defined benefit members' accrued benefits would be measured at the present value of the expected future benefit payments using the Projected Unit Credit Method and discounted at a rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds or, in the absence of such bonds, market yields on government bonds;
- (b) note in the Basis for Conclusions that the Board would prefer, on conceptual grounds, defined benefit members' accrued benefits to be measured at fair value. Although the approach under

AASB 119 for measuring defined benefit obligations is not fair value, the Board noted that, in due course, the IASB's proposed fundamental review of post-employment benefit accounting might result in fair value measurement for defined benefit obligations;

- (c) not imply that the approach under AASB 119 for defined benefit obligations would constitute a level 3 fair value measurement if applied to defined benefit members' accrued benefits; and
- (d) consistent with the proposals in ED 179, require the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, including benefit cost, interest cost and actuarial gains and losses. In addition, the Board noted that the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits would provide users with a basis for understanding any change in defined benefit members' accrued benefits.

In its discussions on Agenda paper 6.2, the Board also decided that the replacement Standard for AAS 25 should:

- (a) where necessary and applicable, refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements. In addition, the Board decided that:
 - (i) the replacement Standard should only provide superannuation-specific guidance where it is necessary to facilitate the reliable and consistent application of the disclosure principles and requirements that are particular to superannuation entities; and
 - (ii) the Basis for Conclusions to the replacement Standard should clarify the Board's reasons for requiring a superannuation plan or approved deposit fund (ADF) to apply particular principles or requirements in other Australian Accounting Standards;
- (b) require a plan or ADF to apply, when appropriate, the principles and requirements in AASB 124 *Related Party Disclosures*;
- (c) in contrast to the proposals in ED 179, only require the disclosure of the number of members and beneficiaries at the reporting date;
- (d) not relieve defined benefit plans from disclosing information under the principles and requirements in AASB 7 *Financial Instruments: Disclosure* in relation to the risk that an employer sponsor will encounter difficulty in making contributions to the plan (credit risk);
- (e) not include disclosure requirements in addition to those in ED 179 in relation to business, non-financial or emerging risks;
- (f) not provide superannuation-specific guidance in relation to the preparation and presentation of consolidated financial statements under AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*;
- (g) require a plan or ADF to present a statement of financial position, an income statement, a statement of cash flows, a statement of changes in members' benefits, notes and, where relevant, a statement of changes in equity;
- (h) provide example financial statements for a superannuation plan with defined contribution members only and a plan comprising both defined contribution and defined benefit members. However, consistent with the approach adopted in ED 179, the example financial statements should not include any illustrative notes;
- (i) not specify disclosure requirements nor provide superannuation-specific guidance in relation to reserves;

- (j) consistent with the proposals in ED 179, require a parent plan or parent ADF that prepares separate financial statements to present its separate and consolidated financial statements together;
- (k) not provide superannuation-specific guidance in relation to how a plan's tax liability for a reporting period might be allocated between the income statement and the statement of changes in members' benefits. The Board noted that other entities are required to perform similar calculations under Australian Accounting Standards, and that plans would currently need to distinguish between tax on earnings and tax attributable to contributions in order to determine members' benefits;
- (l) consistent with the proposal in ED 179, gains and losses in respect of assets and liabilities measured at fair value should be presented and disclosed in a manner consistent with other Australian Accounting Standards, including AASB 7. In addition, the Board noted that, if a plan or ADF considers the separate presentation or disclosure of realised and unrealised gains and losses provides useful information to the users of its financial statements, the entity would not be prevented from presenting or disclosing such information under the replacement Standard for AAS 25 or other Australian Accounting Standards;
- (m) not provide superannuation-specific guidance in respect of the:
 - (i) presentation of 'netted off' revenue or expense items, particularly in relation to those plans and ADFs that conduct their investment arrangements through investment managers and/or custodians rather than directly;
 - (ii) preparation and presentation of cash flow statements and the disclosure of non-cash transactions;
 - (iii) treatment of tax assets and tax liabilities;
 - (iv) recognition criteria for contributions receivable;
 - (v) criteria for presentation of members' benefits as a current liability; or
 - (vi) fair value measurement; and
- (n) consistent with the approach proposed in ED 179, not require a plan or ADF to disclose its management expense ratio (MER), but require disclosure of information relevant to analysis by users. In addition, the Board decided that the Basis for Conclusions to the replacement Standard should clarify the Board's reasons for not requiring a plan or ADF to disclose its MER.

In addition, the Board decided that:

- (a) staff should prepare an issues paper for consideration at a future meeting that considers:
 - (i) the principles and requirements in AASB 7, including their application to financial risks of liabilities not within the scope of AASB 7, and the IASB's forthcoming Fair Value Measurement Standard, and their relevance to a plan or ADF; and
 - (ii) the guidance, if any, that the replacement Standard for AAS 25 might need to include to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7;
- (b) the proposed disclosure principle and associated guidance in relation to net assets attributable to defined benefit members should be clarified to ensure that it does not imply that assets attributable to defined benefit members should equal the amount of defined benefit members' accrued benefits;
- (c) the need for further guidance in relation to:

- (i) the measurement of obligations and assets arising from insurance contracts issued by a plan or ADF; and
 - (ii) the disclosure of segregated financial information;
- would be considered at future meetings; and
- (d) the Basis for Conclusions to ED 179 should be reviewed in light of respondents' comments on:
 - (i) the potential users of the financial statements of a plan or ADF and their respective information needs; and
 - (ii) the criteria used by the Board in determining when it should deviate from the principles and requirements under Australian Accounting Standards.

The Board agreed that members should advise staff out-of-session whether they agree with the staff proposals contained in Agenda paper 6.3.

The Board considered whether its decisions to date in relation to the proposals in ED 179 should be re-exposed. The Board tentatively decided that full re-exposure would not be necessary. However, the Board agreed that re-exposure of specific aspects of the replacement standard might be warranted and that the Board would consider this issue at a future meeting.

Action: Staff
Members

Financial Instruments

Agenda Item 7

The Board had before it:

- (a) a memorandum from Christina Ng and Patricia McBride dated 20 January 2010 (Agenda paper 7.1);
- (b) IASB December 2009 Agenda paper: Summary of constituent feedback and discussion of risk management, financial reporting and the interaction between the two in relation to the reporting of hedging activities (Agenda paper 7.2);
- (c) Financial Crisis Advisory Group letter to G20 on IASB and FASB progress (Agenda paper 7.3);
- (d) IASB Project Timeline (Agenda paper 7.4);
- (e) a memorandum from Daping Gao and Christina Ng dated 20 January 2010 (Agenda paper 7.5);
- (f) IPSAS 28 *Financial Instruments: Presentation* (Agenda paper 7.6);
- (g) IPSAS 29 *Financial Instruments: Recognition and Measurement* (Agenda paper 7.7); and
- (h) IPSAS 30 *Financial Instruments: Disclosures* (Agenda paper 7.8).

The Board received an update on the IASB's financial instruments project (Replacement of IAS 39), dealing with the classification and measurement of financial liabilities, hedge accounting and derecognition. The Board also noted that the IASB:

- (a) is considering the measurement of financial liabilities and proposals to amend hedge accounting requirements jointly with the FASB as part of convergence;

- (b) is undertaking a comprehensive review of the hedge accounting project and its goals to publish an ED by March 2010. The Board also noted the IASB's proposed approach for revising the hedge accounting requirements, including developing an objective for hedge accounting; and
- (c) is re-considering the netting of financial assets and financial liabilities, currently prescribed under IAS 32 *Financial Instruments: Presentation*, as part of the derecognition phase.

The Board requested staff to organise an education session on the proposals to amend hedge accounting requirements at a forthcoming meeting.

The Board considered the differences between IPSASs 28 to 30 and the corresponding IASB standards – mainly the accounting for financial guarantee contracts as financial instruments, additional application guidance to deal with concessionary loans and financial guarantee contracts, and additional disclosure requirements on concessionary loans. The Board decided to jointly discuss the differences and potential amendments to existing Australian Accounting Standards in more detail, in the context of the *Process for Modifying IFRSs for PBE/NFP*, with the New Zealand FRSB in March 2010.

Action: Staff

Related Party Disclosures for not-for-profit public sector entities

Agenda Item 8

The Board had before it:

- (a) a memorandum from Raymond Yu dated 20 January 2010 (Agenda paper 8.1); and
- (b) a project plan for Related Party Disclosures for Not-for-Profit Public Sector Entities (Agenda paper 8.2).

The Board considered the project plan on related party disclosures by not-for-profit (NFP) public sector entities and decided that the project should be condensed to one phase.

The Board directed staff to develop a paper for consideration by the Board at a future meeting, on whether AASB 124 *Related Party Disclosures*, including its disclosure requirements on remuneration of key management personnel, should be applied to NFP public sector entities, and that further research should be undertaken to ascertain the nature of related party disclosures currently being made by NFP public sector entities.

Action: Staff

Unused Agenda item No.

Agenda Item 9

Interpretations

Agenda Item 10

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 20 January 2010 (Agenda paper 10.1);
- (b) a paper: Interpretation issues in progress (IFRIC and domestic topics as at 20 January 2010 (Agenda paper 10.2);
- (c) a memorandum from Joanna Spencer dated 19 January 2010 (Agenda paper 10.3); and
- (d) *IFRIC Update* January 2010 (Agenda paper 10.3.1).

The Board received an update on the current IFRIC projects as at the January 2010 IFRIC meeting and noted that an item on the classification of vesting and non-vesting conditions in share-based payments has been added to the agenda. However, the issue of unit of account for forward contracts with volumetric optionality was not added to the agenda as the IFRIC considered that it would be dealt with in the IASB's IAS 39 *Financial Instruments: Recognition and Measurement* replacement project. The project on production stripping costs is ongoing and the IFRIC has set the scope as "Accounting for the costs of removal of waste material in a surface mining activity during the production phase". The project plan for this issue indicates the issuance of an Interpretation around June 2010. AASB staff will continue to monitor these projects.

The Board also noted the IFRIC's Tentative and Final agenda decisions and decided that it is not necessary to comment on those decisions.

Action: Staff

Management Commentary

Agenda Item 11

The Board had before it:

- (a) a memorandum from Siva Sivanantham dated 19 January 2010 (Agenda paper 11.1);
- (b) collation of submissions on AASB ED 183 *Management Commentary* (Agenda paper 11.2);
- (c) constituent submissions on AASB ED 183 (Agenda paper 11.3);
- (d) comparison of the principles in AASB ED 183 with the G100 publication *Guide to Review of Operations and Financial Condition* (Agenda paper 11.4);
- (e) copy of G100 publication *Guide to Review of Operations and Financial Condition* (Agenda paper 11.5); and
- (f) extracts from the *Corporations Act 2001* – Sections 299 and 299A (Agenda paper 11.6).

The Board agreed that the covering letter should highlight matters arising from the Australian experience with management commentary type guidance, such as the implications for safe harbour provisions and commercial sensitivity.

The Board agreed that its submission should:

- (a) acknowledge that users need information contained in management commentary to help them understand financial statements, and suggest that the role of accounting standard setters on this issue should be resolved as part of IASB's Conceptual Framework project;
- (b) comment that, until the boundary of financial reporting issues are resolved, the AASB can accept the IASB proceeding with the management commentary project with a relatively low priority and issuing the final document in guidance form only, with any thoughts of a Standard awaiting the outcomes of the Conceptual Framework project;
- (c) emphasise that the IASB should focus on higher priority projects such as the Conceptual Framework and the revisions to the Financial Instruments Standards;
- (d) comment that, if management commentary is part of financial reporting, it could have significant implications for many jurisdictions, for example in relation to safe harbour provisions for forward-looking information and audit requirements. A particular comment should be made that, requiring future information would be a change of focus from current IFRSs (with the exception of some disclosures) and that this should first be addressed in the Conceptual Framework project. In addition, an Appendix should provide a background on the Australian environment, noting the existing Corporations Act requirements and ASX Listing Rules;

- (e) note that, in relation to the extent to which management commentary should include management analysis (as distinct from information for users to perform their own analysis), judgement is needed;
- (f) comment that if the guidance refers to users of management commentary, those references should be consistent with the references to users in the Conceptual Framework;
- (g) suggest that the IASB clarify, but not define, the term 'management' as those who are responsible for the preparation of financial statements;
- (h) express support for the content elements described in paragraphs 24-39 of the IASB ED; and
- (i) express support for the IASB's decision to not include detailed application guidance or illustrative examples in the guidance, on the basis that the guidance should be kept at a principle level and that it is better to allow practice to evolve.

The Board also decided that, in due course, consideration should be given to the appropriateness of the IASB's work on management commentary for Australian public sector and private sector not-for-profit entities, having regard to the AASB's projects on Disclosures by Private Sector Not-for-profit Entities and the IPSASB's ED on Reporting on the long-term fiscal sustainability of public finances. The Board agreed it would be premature at this time to limit its consideration of management commentary issues to the for-profit sector.

It was also agreed that staff should draft the Board's submission consistent with the decisions above for final clearance through the Chairman.

Action: Staff
Chairman

Australian/New Zealand Convergence

Agenda Item 12

The Board had before it:

- (a) a memorandum from Angus Thomson, Maybelle Chia, Patricia McBride and Chris Neame dated 13 January 2010 (Agenda paper 12.1);
- (b) a draft AASB/FRSB joint project plan: Australian/New Zealand Convergence (Agenda paper 12.2); and
- (c) an outline of draft Exposure Draft for Phase 1 (Agenda paper 12.3).

The Board received a verbal report on the decisions reached at the 28 January 2010 FRSB meeting and decided that, in line with the FRSB's decisions:

- (a) a draft document dealing with the majority of the issues pertinent to the first phase of the project in respect of 'Tier 1' accounting standards (that is, Standards that do not contain differential reporting concessions) for for-profit entities should be developed for consideration at the March 2010 joint meeting, with the intention that it forms the basis of the proposed Exposure Draft; and
- (b) the timelines for progressing this phase of the project should be shortened to the extent feasible.

The Board noted that the other two phases of the project relate to not-for-profit entities; and differential reporting.

The Board considered a draft AASB/FRSB joint project plan in Agenda paper 12.2 and:

- (a) noted that it should be proposed to locate domestic disclosures, such as those relating to dividend imputation credits, in separate disclosure standards in each jurisdiction; and

- (b) decided to form a joint subcommittee, made up of members from both Boards (see Action below), that will undertake a substantial amount of the review function and preliminary decision making, with the Boards being kept informed of progress throughout.

If feasible, the draft papers for the March 2010 joint meeting should be subject to the prior consideration of the subcommittee.

The Board discussed the outline of a joint ED for phase 1 in Agenda paper 12.3 and expressed some preliminary views, namely, that the document should:

- (a) be simple to read, perhaps with the proposals for the differences and supporting principles shown in tables;
- (b) list any differences expected to remain between the jurisdictions, for example, NZ IAS 26 *Accounting and reporting by Retirement Benefit Plans* and AAS 25 *Financial Reporting by Superannuation Plans*;
- (c) make the Preface to the ED as brief as possible;
- (d) highlight transitional issues and the likely impact of applying AASB 108/NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (e) propose that the amendments resulting from the project should be able to be adopted early on a Standard-by-Standard basis.

Action:

Staff
Ms Crook
Ms Hodgkins
Ms Peach
Ms Perry
Mr Rix
Chairman

Differential Reporting

Agenda Item 13

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 20 January 2010 (Agenda paper 13.1);
- (b) Revised Differential Reporting Framework – Sweep Issues (Agenda paper 13.2);
- (c) Guidance on determining disclosures under the RDR (Agenda paper 13.3);
- (d) a memorandum from Ahmad Hamidi dated 2 February 2010 (Agenda paper 13.4); and
- (e) Guidance on determining disclosures under the RDR – updated (Agenda paper 13.4.1);

The Board considered issues arising from members' comments on the working drafts of an Exposure Draft ED 1XX *Revised Differential Reporting Framework* and related proposed disclosures under a Reduced Disclosure Regime (RDR). The Board decided that:

- (a) the guidance in Agenda paper 13.4.1 is appropriate for use in determining the proposed disclosures under a RDR;
- (b) in relation to transitional arrangements:

- (i) entities currently preparing special purpose financial reports (SPFSs) should apply AASB 1 *First-time Adoption of Australian Accounting Standards* on transition to Tier 1;
 - (ii) entities currently preparing SPFSs and applying the recognition and measurement requirements of Australian Accounting Standards by virtue of using AASB 1 should not use AASB 1 on transition to Tier 2;
 - (iii) entities currently preparing SPFSs and applying the recognition and measurement requirements of selected Accounting Standards should apply AASB 1 on transition to Tier 2;
 - (iv) for-profit private sector entities transitioning from Tier 2 to Tier 1 should apply AASB 1 to be able to claim IFRS compliance. Not-for-profit entities transitioning from Tier 2 to Tier 1 may elect to use AASB 1 in case they want to claim IFRS compliance;
 - (v) entities transitioning from Tier 1 to Tier 2 should not apply AASB 1 and would need to apply the requirements of AAB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (vi) AASB 1 disclosures should be analysed for the purposes of the RDR;
- (c) the AASB should correspond with the IASB about possible amendment to IFRS 1 (and therefore AASB 1) to exempt/prohibit entities from applying IFRS 1, that previously applied full IFRS recognition and measurement requirements but have not claimed IFRS compliance through an explicit and unreserved statement of compliance;
 - (d) exemptions from disclosures under the RDR should be identified by shading relevant disclosures in full IFRS as adopted in Australia;
 - (e) the phrase 'unless a relevant regulator requires application of Tier 1' and the phrase 'unless a relevant public sector entity regulator requires application of Tier 1' should be deleted from the draft ED subparagraphs 5(b) and 5(c) respectively. Instead commentary should be included to clarify that, while Tier 2 requirements are available to entities identified in paragraph 5 of the draft ED, a regulator may decide to require entities it regulates to apply Tier 1;
 - (f) paragraph Aus15.4 should be deleted from AASB 101 *Presentation of Financial Statements* since, under the revised differential reporting framework, the AASB is only concerned with developing standards for General Purpose Financial Statements (GPFSS);
 - (g) user needs and cost-benefit principles used by the *IFRS for SMEs* should be adhered to in determining whether specific disclosures added to full IFRSs in relation to the Australian reporting environment should be retained in the RDR;
 - (h) to help users of financial statements, in particular overseas users, as to the reporting requirements of Tier 1 and Tier 2, Tier 1 should be branded as 'Australian Accounting Standards' and Tier 2 as 'Australian Accounting Standards – Reduced Disclosure Requirements';
 - (i) the process and parameters used in identifying whether to retain/exclude disclosure requirements of Interpretations in/from the RDR should be the same as the process and parameters used in relation to the Standards. Where a disclosure requirement in an Interpretation amplifies or relates to a disclosure from a standard retained in the RDR, cost-benefit and user need principles should be applied to determine the suitability of retaining that disclosure from the Interpretation in the RDR;
 - (j) the following categories of entities should be included as categories typically regarded as publicly accountable in the Australian environment:
 - (i) superannuation plans that are registered with the Australian Prudential Regulation Authority (APRA);

- (ii) Authorised Deposit-taking Institutions (ADIs); and
- (iii) registered managed investment schemes;
- (k) subject to staff consultation with the relevant regulator, the ED should contain a specific matter for comment as to whether trading cooperatives should be deemed as publicly accountable on the grounds that they can be considered to hold funds in a fiduciary capacity for a broad group of outsiders;
- (l) the RDR should be maintained on a continuous basis, rather than waiting for the IASB to update its *IFRS for SMEs*. Each future Exposure Draft or Invitation to Comment involving changes to Tier 1 that includes disclosure requirements should seek comment about which disclosures should be included in the RDR, and if time permits, should specifically identify the Board's proposed reduced disclosures. The ED on the revised differential reporting framework should outline the Board's intended process for updating the RDR in broad terms;
- (m) the ED should clarify that GPFSSs would be financial statements that satisfy two conditions:
 - (i) they are publicly available, whether under a legal mandate or voluntarily; and
 - (ii) they are either:
 - (A) prepared in accordance with accounting standards under a legal mandate or held out to be so prepared; or
 - (B) required to be GPFSSs under a legal mandate or held out to be GPFSSs.

The ED should also explain that holding out financial statements as having been prepared in accordance with Tier 1 or Tier 2 of Australian Accounting Standards or holding out as being GPFSSs to any party would mean the financial statements are GPFSSs;

- (n) the Preface to the ED should include an acknowledgement of Australia-New Zealand convergence efforts along the following lines: "In formulating its Reduced Disclosure Regime, the AASB will strive for a common solution with New Zealand, consistent with the Outcome Proposals agreed as part of a Joint Statement of Intent signed by the Australian and New Zealand Prime Ministers in August 2009 in relation to a Single Economic Market Initiative."; and
- (o) the reconsideration of the suitability of the second sentence of the definition of 'reporting entity' should be postponed to another meeting and there is no need to propose amendments to the definition at present.

The Board directed staff to finalise the ED (including proposed disclosures under an RDR) for issue in February 2010. In relation to the RDR, the Board agreed to propose an application date of periods beginning on or after 1 July 2012, with the objective of having the RDR available for early adoption for 30 June 2010 year ends.

It was noted that the sub-committee may need to undertake some work out-of-session, and a May 2010 Board meeting might be needed to finalise the RDR.

Action: Staff

National Cooperatives Law Submission

Agenda Item 13.5

The Board had before it:

- (a) a memorandum from Ahmad Hamidi & Angus Thomson dated 12 January 2010 [Agenda paper 13.5.1];
- (b) an extract (Part 3.3) from Cooperatives National Law exposure draft 2009 [Agenda paper 13.5.2]; and
- (c) an extract from Regulation Impact Statement for Cooperatives National Law exposure draft [Agenda paper 13.5.3].

The Board noted that:

- (a) on behalf of all the states and territories, NSW Fair Trading has issued an exposure draft of revised Cooperatives Law that could be adopted nationally;
- (b) comments are due to NSW Fair Trading by 26 February 2010; and
- (c) the proposals include a revised financial reporting regime benchmarked to the requirements of the *Corporations Act 2001*, and a proposal to identify large cooperatives that will apply accounting standards and small cooperatives that will be exempt from financial reporting, although the thresholds for distinguishing between large and small cooperatives have not yet been identified.

Members discussed the significance and use of the reporting entity concept by regulators.

The Board agreed to make a brief submission on the exposure draft with a view to subsequently an ongoing line of communication with the relevant regulators to:

- (a) discuss the use of the reporting entity concept in identifying those entities that should prepare GPFSS;
- (b) discuss the potential role of the Reduced Disclosure Regime; and
- (c) ascertain information that might assist the Board in identifying those entities that should be given as examples of publicly accountable entities.

Action:

Staff
Chairman

IASB Update/Emerging Issues

Agenda Item 14

Measurement of Liabilities

Agenda item 14.1

The Board had before it:

- (a) a memorandum from Mischa Ginns dated 20 January 2010 (Agenda paper 14.1);
- (b) a memorandum to the FRSB from Clive Brodie dated 28 January 2010 (Agenda paper 14.1.1); and
- (c) AASB ED 191 *Measurement of Liabilities in AASB 137* (Agenda paper 14.1.2).

The Board noted that:

- (a) the IASB's proposals in ED 191 would result in a significant change in practice for many entities when measuring provisions, and therefore go beyond clarifying the measurement requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;

- (b) ED 191 proposes using a methodology to measure provisions, which has some but not all features of a fair value measurement;
- (c) the measurement methods proposed in ED 191 lack a measurement unifying principle; and
- (d) the IASB has decided to retain the proposal in its 2005 Exposure Draft of proposed amendments to IAS 37 and IAS 19 *Employee Benefits* that measurements of provisions are to be based on expected values rather than most likely outcomes. In this regard, the Board noted that, for many provisions, the possible outflows of economic benefits in settlement and their associated probabilities are inherently uncertain, often resulting in expected values that are very similar to the most likely outcome.

The Board expressed the following preliminary views on the IASB's proposals in the ED:

- (a) a single measurement principle should be established for all provisions, and this principle should be consistent with the measurement principle for other types of liabilities, such as financial liabilities, liabilities to customers presently accounted for under AASB 118 *Revenue*, liabilities under insurance contracts and lease liabilities;
- (b) the IASB should not amend requirements for the measurement of provisions until it develops consistent measurement principles for all liabilities through its Conceptual Framework project;
- (c) if the IASB proceeds with amending the measurement requirements in IAS 37 the Board does not support adding a profit margin and a risk premium to the entity's expected cost of settlement when measuring provisions. Adding these items would not be consistent with the overall proposed measurement requirement that an entity should measure a liability at "the amount that it would rationally pay at the end of the reporting period to be relieved of the present obligation", and would not provide the most relevant information for decision making by users of financial statements. Instead, provisions should be measured at the present value of the estimated cost of settlement, based on the most likely mode of settlement (using contractors, internal resources or a combination of both);
- (d) regarding the ED's proposed limited exemption of onerous contracts arising from transactions within the scope of IAS 18 or IFRS 4 *Insurance Contracts* from the proposed measurement requirements for provisions generally, if the IASB follows the Board's recommendation to develop consistent measurement principles for all liabilities through its Conceptual Framework project, there would be no need to provide this exemption. However, if the IASB does not follow that recommendation, the Board would support the limited exemption;
- (e) the submission should indicate that the guidance on how to apply an expected present value technique is generally useful. For example, if the IASB retains its proposal that risk should be taken into account when measuring provisions, the ED's proposed guidance on how to adjust the discount rate for risk is useful. Specifically, it is useful that paragraph B16 of the ED indicates that adjusting a discount rate for risk typically involves using a lower rate than the risk-free rate; and
- (f) proposals in the IASB's 2005 ED with which the Board disagrees but were not revisited in ED 191 should be commented on in the Board's submission on the current ED. For example, the submission should reiterate the Board's disagreement with the proposal that each provision should be measured on the basis of the expected value of possible outflows rather than the most likely outcome. The Board noted that, if the probability distribution of possible outcomes cannot be reliably assessed, as may be the case when the provision is for a single item, the most likely outcome is the most reliable measure of the cost (with or without the addition of a profit margin or risk premium) to settle the obligation.

Staff should monitor whether the Board's latest views on the measurement of liabilities in contracts with customers and insurance contracts (on which the IASB is seeking comment in its projects on Revenue Recognition and Insurance Contracts) are consistent with its preliminary views on ED 191, and update the Board on that issue at a future meeting.

Staff will share views with FRSB staff, and Board members were requested to inform staff of pertinent practice issues.

In light of some comment letters on ED 191 being likely to be received after the distribution of Board papers for the Board's joint meeting with the FRSB on 17 March 2010, submissions received after the Board papers are distributed will be provided to Board members as they become available. Staff are to provide an oral report at that joint meeting on the main points in the comment letters received. The Board will finalise its submission, subject to any further issues arising from subsequent comment letters. Staff are to review them to assess whether any unexpected issues arise. If unexpected issues arise, but are not major, a Board Subcommittee (see list below) will consider the issues. If major unexpected issues arise, a Board teleconference may be necessary. The Chairman will ultimately review and approve the submission.

Action:	Staff
	Mr Jenkin
	Mr O'Grady
	Mr Rix
	Chairman
	Board members

Emissions Trading Schemes

Agenda item 14.2

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 27 January 2010 (Agenda paper 14.2);
- (b) email correspondence between AASB staff and IASB staff (Agenda paper 14.2.1);
- (c) a memorandum to the FRSB from Chris Neame – FRSB Agenda paper B4.1 (Agenda paper 14.2.2); and
- (d) IASB staff paper Agenda Item 18 (December 2009 meeting) – Accounting for the right to future instalments (Agenda paper 14.2.3).

The Board received an update on the progress of the IASB's Emissions Trading Scheme project.

The Board was informed that at their December 2009 meeting the IASB/FASB discussed the concept of whether, in the context of a voluntary scheme, the right to receive future allowances creates an asset. IASB staff presented two views:

- (a) View 1 – an entity does not control a resource until the contingencies related to the right to receive allowances are received; and
- (b) View 2 – an entity controls a resource when the entity holds a right that will result in the entity receiving allowances if the entity takes specified actions (typically, continuing to emit at a specified level). That right is an option and the entity exercises it by undertaking the specified actions.

No decisions were made by the IASB and FASB. However, when asked if there would be any difference in accounting between a voluntary and statutory scheme, the members of those Boards agreed that there should be no difference.

Action:	Staff
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ASIC Consultation Paper on Facilitating debt raising

Agenda item 14.4

The Board had before it:

- (a) a memorandum from Angus Thomson dated 14 January 2010 – ASIC Consultation Paper on facilitating debt raising (agenda paper 14.4.1); and
- (b) ASIC Consultation Paper 126 *Facilitating debt raising* (agenda paper 14.4.2).

The Board considered the agenda papers and decided that staff should discuss the proposals directly with ASIC staff to determine the extent to which the proposals are intended to address matters pertinent to general purpose financial statements; and whether Section E of the Consultation Paper (which seeks comments on the usefulness of annual reports) is intended to be inclusive of general purpose financial statements. If the Consultation Paper is intending to address general purpose financial statements, then an AASB submission should be prepared and convey the following views:

- (a) there are benefits in rationalising the source of general purpose financial statements accounting requirements through the AASB, as the national accounting standard setter; and
- (b) if ASIC's Consultation Paper results in recommendations for improvements to accounting standards, they should be conveyed to the AASB.

The Chairman, out-of-session, should determine whether a submission is warranted and, if so, the content of the submission based on the above decisions.

Action:	Staff Chairman
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Corporate reporting reform proposals

Agenda item 14.5

The Board had before it:

- (a) a memorandum from Angus Thomson dated 20 January 2010 – Corporate reporting reform proposals (agenda paper 14.5.1);
- (b) a memorandum from Angus Thomson dated 20 January 2010 – Corporate reporting reform proposals – timeframe for comment (agenda paper 14.5.2); and
- (c) Corporations Amendment (Corporate Reporting Reform) Bill 2010 – Explanatory Material (agenda paper 14.5.3).

The Board considered the agenda papers and decided that an AASB submission should be made to the Minister for Financial Services, Superannuation, Corporate Law and Human Services. The Board agreed that the submission should focus on financial reporting matters rather than public policy matters, particularly commenting that:

- (a) the Board supports the proposal to remove the need for parent entities to prepare and lodge financial statements when consolidated financial statements are provided. However, the Board does not support a requirement for summary parent information to be disclosed in either annual or interim financial reports. (The submission should not comment on the issues relating to subsidiary financial statements raised in agenda paper 14.5.1.);
- (b) although the Board agrees with the removal of the 'profit test' for dividends and replacing it with a 'solvency test', the Board thinks the 'solvency test' (which should focus on future cash flows) should be based on principles and not be tied to the balance sheet through a 'net assets test'. Irrespective of this view, the Board noted that the nature of the proposed 'net assets test' is unclear in relation to the extent to which it uses amounts recognised in statements of financial position prepared in accordance with Australian Accounting Standards;
- (c) the Board agrees that, where relevant, directors should be required to express an opinion in the directors' declaration in relation to the compliance of financial statements and notes with IFRSs.

However, the Board noted that many entities are not required to comply with IFRSs (for example, not-for-profit entities) and therefore thinks that the directors' declaration should, consistent with Australian Accounting Standards' requirements, include a directors' opinion about compliance with IFRSs only when (rather than whether) the financial statements and notes are prepared in accordance with IFRSs;

- (d) in relation to the proposals for a simplified directors' report for certain companies limited by guarantee, particularly the proposal for the directors' report to disclose service performance type information, the Board's project on service performance reporting by private sector not-for-profit entities will also address such matters; and
- (e) as part of the reform, consideration should be given to amending the law to facilitate the Board removing the current requirements in AASB 124 *Related Party Disclosures* relating to individual key management personnel.

The submission should be finalised out-of-session by a sub-committee and the Chairman.

Action:	Staff
	Mr Clarke
	Mr O'Grady
	Ms Peach
	Chairman

Amendment to AASB 1

Agenda Item 14.6

The Board had before it:

- (a) a memorandum from Raymond Yu dated 1 February 2010 (Agenda paper 14.6.1); and
- (b) a draft amending Standard AASB 2010-X *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters* (Agenda paper 14.6.2).

The Board considered and approved amending standard AASB 2010-1 *Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters* on the basis of the draft Standard AASB 2010-X, for application to annual reporting periods beginning on or after 1 July 2010 with early adoption permitted.

Action:	Staff
	Chairman

Other Business

Agenda Item 15

The Board had before it:

- (a) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 14 December 2009, re Discount Rates – Valuation of Liabilities and Assets (Agenda paper 15.1);
- (b) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman, dated 21 December 2009 re Lease Accounting (Agenda paper 15.2);
- (c) a letter from Kevin Stevenson, AASB Chairman to Simon O'Neill, ACAG Financial Reporting and Auditing Committee Chairman, dated 21 December 2009, re Impairment of Statutory Receivables;

- (d) FRSB Alert by Vanessa Sealy-Fisher, Senior Project Manager – Accounting Standards (*Summary as at 22 December 2009*) (Agenda paper 15.4);
- (e) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 21 December 2009, re AASB staff comments on IASB Exposure Draft ED/2009/13 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*; (Agenda paper 15.5);
- (f) Submission from PricewaterhouseCoopers dated 18 January 2010 re ED 190 *Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters* (Agenda paper 15.5.1); and
- (g) a letter from Kevin Stevenson, AASB Chairman to The Hon Chris Bowen MP, Minister for Financial Services, Superannuation and Corporate Law, dated 1 February 2010, re Progress Report on CUMA Funded Project: Disclosures by Private Sector Not-for-Profit Entities (Agenda paper 15.6).

The Board noted the correspondence.

The Board also directed staff to send a copy of Agenda paper 15.1 to Messrs Henry and Lenders.

Action: Staff

Close of Meeting

The Chairman closed the meeting at 3.40 p.m. on Thursday 4 February 2010.

Approval

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