Australian Government
Australian Accounting Standards Board

Minutes

Subject:	Minutes of the 114th meeting of the AASB
Venue:	Ken Spencer Room, AASB offices
	Level 7, 600 Bourke St, Melbourne
Time(s):	Wednesday 9 February 2011 from 9.00 a.m. to 4:35 p.m.
	Thursday 10 February 2011 from 9.00 a.m. to 1.05 p.m.

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

Attendance

Members

Kevin Stevenson (Chairman)
Victor Clarke
Anna Crawford
Sue Highland
Ian McPhee (Day 2)
Kris Peach
Joanna Perry
Brett Rix
Roger Sexton
Robert Williams
John O'Grady

Apologies

Glenn Appleyard
Jayne Godfrey
Mark Jenkin
Ian McPhee (Day 1)

In Attendance:
Staff

Clark Anstis (in part)
Natalie Batsakis (in part)
Peter Batten
Robert Keys
Christina Ng (in part)
Jim Paul (in part)
Siva Sivanantham (in part)
Angus Thomson
Raymond Yu (in part)

Agenda and Declarations of Interest

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 such matters arose in this meeting.

Apologies, Minutes and Matters Arising from Minutes

Agenda Item 2

Apologies

Apologies were noted for Glenn Appleyard, Jayne Godfrey, Mark Jenkin and Ian McPhee (day 1)

Minutes

The Board approved the minutes of the one hundred and thirteenth meeting held on 8-9 December 2010.

Chairman's Report

The Chairman welcomed the new Board members present – Anna Crawford and Roger Sexton, and the new Board Secretary, Peter Batten. They introduced themselves. The Chairman also announced that Kris Peach had accepted appointment as joint Deputy Chair, joining Ian McPhee and replacing Bruce Porter.

The Chairman briefly commented on procedures for the information of new Board members, including the types of circumstances in which Declarations of Interest are usually noted and advising that new members will undertake an induction session relating to travel arrangements and obligations under the FMA Act.

He thanked Board members who participated in recent IASB out-reach activities relating to hedge accounting and impairment, and provided Board members with an update on:

(a) staff movements noting that these changes will impact on workloads and the ability of staff to complete projects when originally planned:

(b) recent developments and activities of the National Standard Setters (NSS), Asian-Oceanian Standard-Setters Group (AOSSG) and Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG), in particular that the AOSSG will meet in Australia on 23/24 November 2011, at which time Australia will take over Chairmanship;

(c) developments in the structure of standard setting in New Zealand, with the FRSB due to be replaced from 1 July 2011. The outcomes are unclear at present, but have some potential to affect harmonisation between Australia and New Zealand in the public sector;

(d) the presentation to be given by Merran Kelsall (AUASB Chair), which has been deferred until the June 2011 meeting; and

(e) Joanna Perry's status from July 2011, when she will be an ex-officio observer to the AASB, assuming her role as a member of the IFRS Interpretations Committee continues.

The Secretary advised the Board that it had approved out of session, as set out in Agenda Paper 13.11:

– AASB 9 *Financial Instruments* (revised to incorporate requirements relating to financial liabilities);
– AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*;
– AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*;
– AASB 2010-9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*; and
– AASB 2010-10 *Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters.*

The Board noted these approvals.

Control in the Not-for-Profit (NFP) Sector and Consolidation

Agenda Item 3

The Board had before it:

(a) a memorandum from Siva Sivanantham dated 24 January 2011 (*Agenda paper 3.1*);

(b) a collation of submissions to the AASB on ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* (*Agenda paper 3.2*);

(c) constituent submissions to the AASB on ED 205 (*Agenda paper 3.3*); and

(d) a copy of ED 205 (*Agenda paper 3.4*).

Progress Reports

Staff provided progress reports on the following:

(a) *Control in the NFP Public and Private Sectors project*

The Board noted the progress being made on this AASB/FRSB joint project. In particular, the Board noted that work is under way on a paragraph-by-paragraph review of the IASB staff draft of IFRS 10 *Consolidated Financial Statements* to identify potential areas for domestic NFP/public sector paragraphs. The Board reconfirmed its aspiration to issue a Standard applicable to NFP public and private sector entities by December 2011, but acknowledged that this might not be feasible given the Board's other priorities. Therefore the objective should be to at least issue a Standard prior to the forthcoming IFRS 10 becoming mandatory. Accordingly, a revised project timetable should be discussed at the next Board meeting, jointly with the FRSB.

(b) Forthcoming IFRSs

The Board noted recent developments regarding the IASB's projects on consolidation and joint arrangements. In particular, it noted that:

(a) both IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* are expected to be issued in quarter 1 of 2011; and

(b) IAS 28 *Investments in Associates* requirements regarding potential voting rights would not be amended to be consistent with the forthcoming IFRS 10. The inconsistency could be addressed as part of a more comprehensive review of IAS 28 if such a project were to be added to the IASB's agenda after June 2011.

Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation

The Board considered constituents' comments on AASB ED 205, which was issued in September 2010 for comment by 12 January 2011. The Board received seven submissions and all respondents expressed broad support for the ED's proposals.

The Board decided to proceed with the proposals and incorporate some of the suggestions for improvements made by respondents. It agreed that:

(a) two Amending Standards should be issued, to clarify the application dates of the amendments, having regard to the dates pertinent to the Reduced Disclosure Requirements (RDR):
    (i) the first Amending Standard would include non-RDR amendments, applying from 1 July 2011 with early application permitted from 1 January 2005; and
    (ii) the second Amending Standard would include the RDR-related amendments, applying from 1 July 2013 with early application permitted from 1 July 2009;

(b) to assist in the application of the requirements, Table A of the Basis for Conclusions to ED 205 should be included as an Australian Appendix to, but not as an integral part of, AASB 127 *Consolidated and Separate Financial Statements*;

(c) it is not necessary for the Amending Standards to provide relief in relation to for-profit government departments given that relatively few, if any, such government departments currently exist in Australia. The costs to the AASB of expressing such relief would outweigh the benefits to the economy, given the current non-existence of for-profit government departments. However, for completeness, the Table to be included in the Australian Appendix referred to in (b) above, should acknowledge that the relief is not available in relation to for-profit government departments;

(d) the Amending Standards should not include explicit explanations for scenarios where the relief is not available because paragraphs BC5 and BC6 of the ED clearly explain why the relief has been extended to the circumstances specified; and

(e) the Amending Standards should include a brief commentary in the introduction section explaining the nature of amendments that arose from AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*.

It was also agreed that staff will work with an AASB sub-committee, comprising Mr Stevenson and Ms Peach, in finalising the Amending Standards for out-of-session voting by the Board.

Action: Staff
Sub-committee

Related Party Disclosures for Not-for-Profit (NFP) Public Sector Entities

Agenda item 4

The Board had before it:

(a) a memorandum from Raymond Yu and Clark Anstis dated 25 January 2011 (*Agenda paper 4.1*); and

(b) Issues Paper *Related Party Disclosures in the Not-for-Profit Public Sector* (*Agenda paper 4.2*).

The Board considered issues concerning the potential application of AASB 124 *Related Party Disclosures* by NFP public sector entities, including the possibility of adding exemption(s) relating to the disclosure of information about transactions with government Ministers and local government councillors (and their close family members).

The Board decided not to propose adding an explicit exemption to AASB 124, based on the view that the principles in AASB 124 already adequately deal with routine related party transactions – paragraph 18 refers to information "necessary for users to understand the potential effect of the [related party] relationship on the financial statements", and the requirements of the Standard are subject to materiality.

The Board decided that an ED proposing the application of AASB 124 by NFP public sector entities should now be prepared and should:

(a) explain the Board's rationale for concluding that it is appropriate for the principles in the Standard to be applied to NFP public sector entities with regard to Minister-related transactions (and to councillor-related transactions in a local government context). The explanation should not imply that Portfolio Ministers would be treated differently from Non-Portfolio Ministers;

(b) emphasise that AASB 124 requires disclosure of aggregated information about related party transactions rather than individual transaction information; and

(c) note that the Ministerial transactions issue is not relevant to local governments because paragraph Aus17.9(e) of AASB 127 indicates that they are not controlled by state or territory governments – and therefore Ministers normally would not be key management personnel of a parent entity of a local government and thus would not be related parties under that caption.

The Board appointed a subcommittee (consisting of Mr Stevenson, Ms Highland, Mr McPhee and Ms Perry) to work with staff to finalise the pre-ballot draft of the ED. The Board suggested that the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) be asked to field test the application of AASB 124 in a public sector context.

Action: Staff
Sub-committee

Key Management Personnel

Agenda Item 5

The Board had before it:

(a) a memorandum from Angus Thomson dated 17 January 2011 (*Agenda item 5.1*); and

(b) email correspondence between AASB and IASB staff (*Agenda paper 5.2*).

The Board noted:

(a) developments in the area of individual key management personnel (KMP) disclosure requirements under corporations legislation, including Treasury proposals regarding companies and the Corporations and Markets Advisory Committee (CAMAC) review of the requirements surrounding the disclosure of executive remuneration in the Corporations Act 2001 (and regulations);

(b) that the IASB plans to deal with concerns about the application of KMP requirements in IAS 24 *Related Party Disclosures* to entities (such as managed investment schemes) that do not have employees and have responsible entities managing their affairs; and

(c) ED 200A *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* (July 2010) sought comment on whether the additional individual KMP disclosure requirements in AASB 124 should be retained and all of those commenting on this matter supported their removal.

In view of these developments, the Board decided to:

(a) issue an Amending Standard that would withdraw the individual KMP disclosure requirements from AASB 124 on the basis that those disclosures are in the nature of governance matters best dealt with in the law; and in the interests of removing differences from IFRSs and convergence with New Zealand Standards;

(b) the Amending Standard should have a two-year transition period without early adoption being available; and

(c) write to Treasury noting the Board's decisions and that, during the transition period, government may wish to give consideration to including further individual KMP disclosures in the law, particularly in respect of those disclosures relating to matters not already covered by the law, including individual KMP equity holdings and loans.

The Board agreed to vote on the Amending Standard out of session.

Action: Staff
AASB Members

Financial Instruments: Hedge Accounting

Agenda item 6

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 27 January 2011 (*Agenda paper 6.1*);

(b) AASB ED 208 *Hedge Accounting* (*Agenda paper 6.2*); and

(c) a slide presentation summarising the proposals and examples of the issues identified at the IASB outreach meetings (*Agenda paper 6.3,* tabled);

The Board considered issues for inclusion in its submission on the IASB's Exposure Draft ED/2010/13 *Hedge Accounting* (open for comment to the IASB until 9 March 2011) – which is the subject of AASB ED 208 *Hedge Accounting*; open for comment to the AASB until 18 February 2011. The Board noted that the proposals are aimed at improving and simplifying the requirements for hedge accounting and that the ED is part of the final phase in the IASB's project to replace IAS 39 *Financial Instruments*. Revised requirements are expected to be issued by the middle of this year. The Board decided to express broad support for IASB's efforts in developing and proposing requirements to improve hedge accounting. The AASB noted that its preference remains that all financial instruments should be measured at fair value

The Board tentatively decided to comment that there a number of areas on which the IASB needs to give further consideration, in particular:

(a) the linking of hedge accounting to an 'entity's risk management strategy' – there are concerns the link is too broad and will result in an increased use of hedge accounting – making it the norm, rather than an exception to recognition and measurement requirements. There are also concerns that there may be instances where an entity could inappropriately 'manage' its performance by electing to apply hedge accounting to fair value a financial asset rather than electing the fair value option – which is an irrevocable election at initial recognition. The Board believes that, if the IASB is to retain the link, it should define what is meant by an 'entity's risk management strategy';

(b) the focus of the objective on managing exposures that impact profit or loss. The proposed objective is focussed on managing exposures that could affect profit or loss and it is clear this decision has impacted other requirements proposed in the ED, such as the proposal to prohibit instruments measured at fair value through other comprehensive income (OCI) from being designated as hedged items and the proposal to prohibit non-derivative financial instruments that are not measured at fair value through profit or loss from being designated as hedging instruments. The AASB does not believe that the IASB has provided sufficient justification for excluding these types of items or instruments for eligible designation, especially if they form part of the hedging activities of the entity consistent with its risk management strategy;

(c) the proposed treatment of the fair value of the time value of an option is not sufficiently justified. The AASB considers there to be some merit in the treatment of the time value of options as operating costs in a similar way to an insured's insurance premiums. However, there are a number of IFRSs that do not allow capitalisation of acquisition costs – for example, IFRS 3 *Business Combinations* and IAS 123 *Borrowing Costs*. Additionally, not allowing zero cost collars to be treated in the same way as options seems arbitrary and will likely give rise to structuring opportunities;

(d) providing some clarity around the rebalancing requirements. There are a number of areas in the proposals that are unclear – for example, whether rebalancing should take place before or after hedge effectiveness is considered, and the difference between a rebalancing event and an 'overhaul event'. The proposals should be reconsidered and guidance provided where necessary;

(e) the removal of the election to voluntarily discontinue hedge accounting. The proposal seems to be an unnecessary bright line rule to mitigate the concerns raised in the Alternative View that linking hedge accounting to risk management activities will allow entities to freely move into and out of hedge accounting. The Board noted that discontinuation of a hedge may not be due to any change in an entity's risk management strategy, but rather for commercial or regulatory reasons. Also, if the entity's risk management strategy is to enter and exit hedging relationships to mitigate risk exposures, then not allowing entities to voluntarily discontinue hedge accounting is inconsistent with the IASB's stated objective of hedge accounting;

(f) the interaction between the disclosure requirements in AASB 7 *Financial Instruments: Disclosures* and the proposed disclosures and whether there is repetition in the disclosure requirements for identifying an entity's risk exposures and the entity's risk management policies should be addressed;

(g) the discussion around the hedging of credit risk is inconsistent with the IASB's previous decision to require the measurement and separate presentation of fair value changes due to changes in an entity's credit risk for financial liabilities designated at fair value through profit or loss in OCI;

(h) the hedge effectiveness requirements. Whilst there is support for the removal of the bright line rules, the proposed wording introduces a number of new terms that are not defined and seem likely to cause confusion and diversity in application in practice;

(i) that there are still a number of hedge transactions that are undertaken for risk management purposes that will not achieve hedge accounting under the proposals. If the IASB maintains that these types of transactions should not achieve hedge accounting, it should clarify that when an entity acts to manage its exposures, that means the entity is looking at 'risk mitigation' and not 'risk conversion' or 'swapping of risks'; and

(j) the prospective application of the proposals. It is not clear whether the IASB means that hedges that are already in place can be dedesignated and redesignated in accordance with the proposed requirements, or whether the proposals would only apply to new hedging relationships entered into after transition to the new hedging requirements. In addition, the AASB has some sympathy for providing a once-off retrospective adjustment on transition to the new requirements because there may be instances where there are long-dated existing hedging relationships and applying the requirements prospectively will require the entity to keep two sets of hedging books and report different results – those under the old requirements and those under the new requirements.

An additional concern of the Board is that the ED increases the use of OCI, despite the fact that the IASB is yet to establish a generally accepted principle for determining which items should be presented in OCI.

The Board also discussed whether it is consistent to allow hedge accounting as an option when it is linked to an entity's risk management activities. The Board decided that, given its preference for all financial instruments being measured at fair value through profit and loss and because requiring mandatory application of hedge accounting could be too costly for some entities, it remains appropriate to treat hedge accounting as an exception to the normal recognition and measurement requirements.

The Board directed staff to draft the submission for review by a sub-committee (consisting of Mr Rix, Mr O'Grady and Mr Stevenson) and some members of the Financial Instruments Advisory Panel. The submission will be finalised out-of-session.

Action: Staff
Sub-committee

Islamic Finance

Agenda Item 7

The Board had before it:

(a) a memorandum from Christina Ng and Angus Thomson dated 24 January 2011 (*Agenda paper 7.1*);

(b) Malaysia International Islamic Finance Centre Introduction to Islamic Finance *(Agenda paper 7.2*); and

(c) presentation slides (*Agenda paper 7 Islamic Finance*, tabled).

The Board conducted an information session on Islamic finance, including information about some of the implications of Islamic finance on accounting for revenue from contracts with customers, insurance contracts and leases.

The Board noted that AASB staff are involved with the Asian-Oceanian Standard-Setter Group's Islamic Finance Working Group, which has commented to the IASB on recent Exposure Drafts.

Financial Assets Impairment

Agenda Item 8

The Board had before it:

(a) a memorandum dated 27 January 2011 from Christina Ng (*Agenda paper 8.1*);

(b) staff observations on the IASB forthcoming supplemental impairment model (*Agenda paper 8.2*); and

(c) extracts of the IASB December 2010 meeting paper, *How financial institutions manage and assess credit risk and the notion of 'good' book/'bad' book* (*Agenda paper 8.3*).

The Board considered staff observations, and preliminary issues and comments for inclusion in its submission letter on the IASB's proposed supplemental impairment model ('supplement model'). The Board noted that:

(a) overall, the supplement model lacks a clear measurement attribute for a cost-based model (as did the original proposed model in ED/2009/12). The supplement model proposes that impairment (or expected loss), which would be derived from using past, present and 'forecasted' information, should be recognised in profit or loss. However, the Board considered that 'forecasted' information would not be appropriate for a cost-based financial asset;

(b) although the supplement model would be based on an entity's credit risk management framework, the Board does not believe that an entity would typically consider expected loss over the life of its assets for 'good' book portfolios. Accordingly, the Board considers the reasoning for the IASB's 'business model' proposal contradictory to an entity's actual credit risk methodology;

(c) even though there are concerns relating to using different forecast periods for estimating a 'foreseeable future loss', which would result in incomparable financial results, the Board considered the IASB's proposed 'ceiling' on the forecast term (which might limit the extent of incomparability) would conflict with the IASB's principles for proposing an expected loss model;

(d) the ‘foreseeable future loss’ approach in estimating expected loss for a ‘good’ book portfolio is arguably broadly similar to an incurred but not reported (IBNR) loss model, in that an IBNR model considers, having regard to past events, losses that may occur in the near term, which may include beyond a 12-month period. The IBNR model was recommended to the IASB in the Board’s comment letter to ED/2009/12 as a form of forward-looking impairment model. The Board will continue to propose an IBNR model to the IASB as it corresponds to a cost-based measurement and recognises a wider range of information, including past, present and ‘trend-type’ events, than an incurred loss model under IAS 39;

(e) the proposed foreseeable future loss estimation and the use of forecasted data would be based on 'reasonable and supportable' information. The Board considered the IASB should clarify the notion of 'reasonable and supportable' and whether it has any connection with the IASB's recently developed notion of 'verifiability' in the context of the Conceptual Framework project. The Board also considered the need for a distinction between, information that provides the basis for determining that particular events have already occurred and which gives rise to impairments (or reversals of impairments), and forecast information, which goes beyond an amortised cost model and the IBNR approach.

(f) the proposal to provide an option to measure the expected loss amounts using either an annuity method (discounted) or a straight-line method (undiscounted). The proposed discount rate for an annuity approach is any reasonable rate between (and including) the risk-free rate and the contractual effective interest rate calculated under AASB 139. The Board noted the IASB's conclusion that contractual rates would be conceptually inappropriate; and

(g) the supplement model is focussed on amortised cost financial assets that are managed on an open portfolio basis, and specifically excludes short-term trade receivables. The Board would prefer an impairment model that is applicable to all financial assets measured at amortised cost and is concerned about potentially creating multiple impairment models for the same measurement category. The Board is of the view that the latter outcome would contradict the IASB’s objective to simplify the accounting for financial instruments.

The Board also decided to publish a Tier 2 Exposure Draft that would exempt Tier 2 entities from making some of the IASB proposed disclosure requirements. The Tier 2 Exposure Draft will have a comment period of 90 days.

The Board will finalise its submission to the IASB out-of-session though a subcommittee comprising of Mr Clarke, Mr O’Grady, Dr Sexton and Mr Stevenson.

Action:	Staff
	Sub-committee

Management Commentary

Agenda Item 9

The Board had before it:

(a) a memorandum from Siva Sivanantham dated 21 January 2011 (*Agenda paper 9.1*);

(b) a copy of the IASB's IFRS Practice Statement *Management Commentary* (*Agenda paper 9.2*); and

(c) a copy of the AASB's submission on IASB ED 2009/6 *Management Commentary* (*Agenda paper 9.3*).

The Board considered its options with regard to the IFRS Practice Statement *Management Commentary*, issued by the IASB in December 2010. The Practice Statement is a broad framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRSs. The Board noted that, although the IASB concluded that management commentary is within the scope of financial reporting, the Practice Statement is not an IFRS, and consequently entities applying IFRSs are not required to comply with the Practice Statement, unless otherwise required in their jurisdiction.

The Board also noted that broadly similar guidance on management commentary already exists in Australia, particularly in the private sector. Accordingly, the Board decided to publish the IASB's Practice Statement on the AASB's website, making it available for all entities, including public sector entities, but noting that existing guidance might take precedence. In addition, the Board agreed to suggest that other relevant regulators, such as the Australian Stock Exchange, could consider reviewing their existing guidance in light of the Practice Statement.

Furthermore, the Board decided to raise with the Australian Securities and Investments Commission (ASIC) the IFRS Practice Statement *Management Commentary* given the ASIC's review of the quality of management commentary (also known as the 'Operating and Financial Review').

It was agreed that, additionally, staff will:

(a) contact the IFRS Foundation to help identify any copyright issues;

(b) liaise with the relevant FRSB staff to ascertain how the FRSB is publishing the Practice Statement; and

(c) finalise and publish the Practice Statement on the AASB website.

Action: Staff

Income from Non-Exchange Transactions

Agenda item 10

The Board had before it:

(a) a memorandum from Jim Paul and Joanne Scott dated 26 January 2011 (*Agenda paper 10.1*);

(b) a staff paper on the scope of revised ED (*Agenda paper 10.2*);

(c) a staff paper on the measurement of non-financial assets acquired (*Agenda paper 10.3*);

(d) a staff paper on the measurement of financial assets and financial liabilities arising from non-exchange transactions (*Agenda paper 10.4*);

(e) a staff paper on the measurement of performance obligations and other non-financial liabilities (*Agenda paper 10.*5);

(f) a staff paper on the measurement of transactions with exchange and non-exchange components (*Agenda paper 10.6*);

(g) a staff paper on the measurement of return obligations and advance receipts liabilities (*Agenda paper 10.7*);

(h) a staff paper illustrating the measurement of different categories of obligations (*Agenda paper 10.8*);

(i) a status report on the Boards' project on income from non-exchange transactions (*Agenda paper 10.9*);

(j) a status report on the IASB project to develop an IFRS on *Revenue from Contracts with Customers* (*Agenda paper 10.10*); and

(k) a flowchart of the elements arising from revenue transactions and how they might be measured by public benefit entities (PBEs)/ NFPs (*Agenda paper 10.11,* tabled).

The Board considered the agenda papers and the comments in the submissions on AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)* (ED 180) relating to the issues discussed in the agenda papers.

The Board decided that:

(a) assets and liabilities arising from transactions involving revenue of PBEs/NFPs in the public and private sectors should be identified and measured by considering which financial statement elements exist, without being concerned with whether the transaction concerned was 'exchange', 'non-exchange' or a combination of both. Accordingly, the revised ED (succeeding ED 180) should apply to revenue recognition by PBEs/NFPs in the public and private sectors and its scope should not be limited to non-exchange transactions. The Board has yet to decide whether the revised ED should be presented as a modified version of the IFRS on *Revenue from Contracts with Customers* (with additional PBE/NFP-specific guidance), or as a stand-alone document with a different title;

(b) financial assets, financial liabilities [although see paragraphs (e) – (g) below] and non-financial assets of PBEs/NFPs arising from transactions within the scope of the revised ED should initially be measured in accordance with the measurement requirements of the Standard applying to that class of assets or liabilities (e.g., AASB 9 *Financial Instruments* and AASB 116 *Property, Plant and Equipment*). This decision reflects the Board's conclusion that there is not a PBE/NFP-specific reason to depart from these requirements. The Board noted that:

(i) IASB ED/2010/6 *Revenue from Contracts with Customers* proposes that, to determine the transaction price in a contract with a customer, non-cash consideration (or a promise of non-cash consideration) is measured at fair value; and

(ii) if the IASB proposal in (i) were retained in the resulting IFRS, initial measurement of non-financial assets received in contracts with customers might not require 'Aus' paragraphs dealing with the measurement of 'cost' (at fair value) when an asset is acquired for no cost or for a nominal cost.

However, the Board noted that, if the IFRS applying to a particular class of non-financial assets requires such assets to initially be measured at fair value ***adjusted for transaction costs***, the Board's decision in the first sentence of (b) would require transaction costs to be taken into account in the initial measurement of the assets concerned;

(c) non-financial liabilities (such as performance obligations) of PBEs/NFPs arising from transactions within the scope of the revised ED should be measured consistently with the principles underpinning IASB ED/2010/6, but those principles should be re-expressed in a manner leading to recognition of income from transactions or components of transactions that do not give rise to liabilities. [Re-expression of those principles is necessary because the specific requirements proposed in IASB ED/2010/6 do not acknowledge transactions involving a donation (or other contributory) element. The Board noted that, in some transactions of PBEs/NFPs, the contributory element may be the main component of the transaction.] Accordingly, the Board noted that, if the proposals in IASB ED/2010/6 were retained in the resulting IFRS:

(i) non-financial liabilities of PBEs/NFPs would be measured directly at the stand-alone selling price of the unit of account for the usual sale of the goods or services that are the subject of the obligations, rather than at fulfilment value. This is the case provided sufficient evidence of its stand-alone selling price exists. The revised ED should not identify for PBEs/NFPs a single best method of those identified in the IASB Revenue ED for estimating the stand-alone selling price of a good or service that is the subject of a performance obligation. This is because the best method will depend on the evidence available in the circumstances, and professional judgement will be necessary in applying the principles in the Standard;

(ii) any multiple obligations composing that unit of account would be measured indirectly on a relative stand-alone selling price basis (e.g., allocating any discount to each obligation within that unit); and

(iii) the difference between the total transaction price and the sum of the stand-alone selling prices of each unit of account, determined in accordance with (i) and (ii) immediately above, would be recognised as income or expense immediately. Thus, the relative stand-alone selling price allocation proposed in IASB ED/2010/6 would be limited to each unit of account for the obligations, and would not nullify the recognition of income for any contributory element of the transaction;

(d) the re-expression of the proposals in IASB ED/2010/6 noted in (c)(i) – (iii) immediately above would apply to each PBE/NFP, and thus the scope of the re-expressed proposals would be based on the nature of the entity rather than the nature of the transaction (such as whether the transaction or a component thereof is 'non-exchange');

(e) the limited exception to paragraph B5.4.8 of AASB 9 proposed in paragraph BC17 of ED 180 should be retained. ED 180 proposed removing the restriction in AASB 139 *Financial Instruments: Recognition and Measurement* (now in AASB 9) that 'day one' gains/losses on initial recognition of financial assets and financial liabilities arising from differences between the transaction amount and fair value may only be recognised when all of the variables that are inputs to the fair value estimate are observable. The Board decided the proposed exception should be retained because:

(i) 'day one' gains reflecting a contributory element of a transaction are a common occurrence for PBEs/NFPs; and

(ii) applying the AASB 9 'observable variables' constraint on recognising 'day one' gains/losses would give rise to a significant risk that financial statements would not recognise that contributory element, and the Board considers that recognition of such a contributory element is necessary for faithful representation of the transaction;

(f) return obligations that are not advance receipts should be measured consistently with the proposed measurement basis for 'refund liabilities' in IASB ED/2010/6, namely, the probability-weighted amount of consideration that the entity expects to refund. The Board considers this measure would provide useful information about future sacrifices of economic benefits arising from return obligations. The Board also decided there is not a PBE/NFP-specific reason to depart from the measurement basis proposed in IASB ED/2010/6. Nevertheless, some Board members expressed concern that paragraph 37 of IASB ED/2010/6:

(i) does not state that the "probability-weighted amount of consideration that the entity expects to refund to the customer" should take into account the time value of money; and

(ii) refers to the entity's expectations of amounts that will be refunded, rather than the expectations of market participants about those amounts, thus departing unnecessarily from the fair value principle generally established in IFRSs for initial measurement of financial liabilities; and

(g) liabilities in the form of advance receipts of taxes and transfers should, consistent with AASB 9, be measured at the amount that would be required to be returned if the taxable event did not occur or the transfer arrangement did not become binding. This would generally be the amount of the assets received in advance. In relation to transfers, an advance receipt may require the entity to sacrifice the economic benefits received in advance, either by refunding assets or by performing once the arrangement becomes binding. The Board decided advance receipts generally should not be characterised as demand deposits because, depending on the circumstances, the amounts received in advance might not be callable upon demand; for example, repayment might be required only if an uncertain future event beyond the control of the resource provider fails to occur (the taxable event does not occur or the transfer arrangement does not become binding).

The Board noted the status report for this project, including the ambitious draft timetable therein. The Board reaffirmed the project's high priority but decided not to identify estimated dates for issuing a revised ED and subsequent Standard. In this regard, the Board noted the dependence of those dates on when the IFRS on *Revenue from Contracts with Customers* is issued.

The Board also noted the status report on the IASB project to develop an IFRS on *Revenue from Contracts with Customers*.

The Board requested staff to prepare a paper discussing transfers accompanied by enforceable obligations to provide services that will cost more to fulfil than the amount of the transfer (e.g., the transfer partially funds the entity to perform a service it already intended to perform). The Board noted concerns that, under the measurement approach set out in paragraphs (c)(i) – (iii), an entity might customarily recognise losses upon recognising such transfers.

The Board also requested staff to provide feedback on whether, under the proposals in IASB ED/2010/6, partially-performed performance obligations would be remeasured (for example, by recalculating the proportions of the transaction price that are allocated, respectively, to the performed and unperformed components of the performance obligation). Board members expressed concern about the potential complexity of subsequent measurement of performance obligations if partially-performed performance obligations were required to be remeasured.

Furthermore, the Board requested staff to prepare for consideration at its March 2011 meeting a paper articulating its tentative decisions to date on the identification and measurement of elements addressed in this project, and the reasons for those decisions.

The Board also noted the project status report identifies a range of issues in ED 180 to be redeliberated, on which agenda papers will be prepared in due course.

Action: Staff

AASB Policies and Processes

Agenda Item 11

The Board had before it:

(a) a memorandum from Angus Thomson dated 17 January 2011 (*Agenda paper 11.1*); and

(b) draft Statement *AASB Policies and Processes* (*Agenda paper 11.2*).

The Board noted that the content of the document has been amended for its September 2010 decisions, which include a re-structuring around the key strategies, adding text on the strategy of developing international relationships (including with New Zealand) and adding a section on the Board's process for identifying disclosures for Tier 2 (Reduced Disclosure Requirements).

The Board decided:

(a) that some additional re-structuring may be needed around the key strategies, but noted that no singular linear structure could neatly follow all the key strategies given the nature of those strategies;

(b) to consolidate the references to FRC directives in the FRC section and add a hyperlink to the FRC website;

(c) in relation to the strategy of having Tier 1 for-profit entities complying with IFRSs (paragraph 7(b)), to footnote the possible exception of for-profit government departments applying Standards such as AASB 1004 *Contributions*;

(d) in relation Australia-New Zealand co-operation (paragraph 10), that reference should be made to the objective of reducing reporting costs and facilitating trade for entities operating across the Tasman;

(e) in relation to paragraph 16 (relating to standards including application paragraphs), to ensure that the wording does not rule out having a separate application standard;

(f) in relation to Tier 2 (paragraphs 27 and 28), that more emphasis should be placed on the broad principles that the AASB uses to identify reduced disclosures and the cost-benefit considerations, to better put the references to the *IFRS for SMEs* in context; and

(g) in relation to interpretations (paragraph 43), to add ‘In respect of the rare and exceptional circumstances” to the text dealing with situations in which the AASB might consider issuing interpretations;

The Board agreed that a ballot draft of the Statement, revised for the Board’s decisions, be circulated for voting to members.

Action: Staff
AASB Members

Emerging Issues

Agenda item 12

The Board had before it:

(a) a Memorandum (Projects Pipeline) from Robert Keys and Peter Batten dated 27 January 2011 (*Agenda paper 12.1*);

(b) Submissions pipeline report (*Agenda paper 12.1.1*);

(c) a Memorandum (Progress report on major public sector and NFP private sector projects) from Robert Keys dated 27 January 2011 (*Agenda paper 12.2*);

(d) A proposed Dissenting opinion of Kevin M Stevenson regarding the publication of AASB 2011-X *amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project* (*Agenda paper 12,* tabled), and related documents;

(i) an extract (pages 18-21) of AASB ED 200A *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* as circulated for comment (tabled);

(ii) extracts from submissions previously received relating to ED 200A and the true and fair over-ride principle from the Australian Council of Auditors-General, Ernst & Young and Ian Langfield Smith, tabled); and

(e) a memorandum (Emerging Issue – Invitation to Comment – Australian Water Accounting Standard 1) from Peter Batten dated 25 January 2011 (*Agenda paper 12.3*).

Forthcoming IFRSs (Agenda paper 12.1)

The Board noted the significant number of, and the wide range of (including some interrelated) topics to be addressed in, IFRSs expected to be issued and incorporated into AASB Accounting Standards in the short-term. For each forthcoming IFRS, where relevant, the Board's deliberations will include consideration of RDR implications and the extent to which public sector/NFP issues will need to be addressed.

AASB submissions (Agenda paper 12.1.1)

The Board noted the range of consultative documents that are currently on issue or expected to be issued by various bodies (e.g. IASB and IPSASB) in the short-term. The Board intends to consider and make a submission on each document.

Major public sector/NFP projects (Agenda paper 12.2)

The Board received an update on the progress being made on its major domestic public sector/NFP projects. The Board particularly noted that, in relation to:

(a) GAAP/GFS Harmonisation for Entities within the GGS: staff anticipate bringing any sweep issues to the Board's March 2011 meeting, with the possibility of finalising the ED for issue around mid-April 2011 with a four-month comment period; and

(b) Service Performance Reporting: staff have documented a significant amount of empirical research on current practice. The documented research incorporates comments from the Project Advisory Panel and the AASB/FRSB Sub-Committee. Staff are now aiming to distribute, around the end of February 2011, further papers for Project Advisory Panel members' comment. These papers relate to the framework for, objective of, users of, users' needs for, and the definition of service performance reporting.

The Board also noted the concern of some constituents if the draft proposed relief from adopting the latest version of the ABS GFS Manual is not incorporated into AASB 1049 *Whole of Government and General Government Sector Financial Reporting* before 30 June 2011 – particularly due to the implications of the latest version of the Manual for the measurement of defence weapons platforms. In acknowledgment of this concern, the Board decided that an Exposure Draft proposing all the amendments arising from the post-implementation review of AASB 1049 should be issued as soon as possible, and allow:

(a) a 30-day comment period for the proposals relating to the relief from adopting the latest version of the ABS GFS Manual; and

(b) a 90-day comment period for the other proposals.

The Board noted this approach should enable it to issue an Amending Standard focused solely on the relief before 30 June 2011.

Australian Water Accounting Standard 1 – Invitation to comment (Agenda paper 12.3)

The Board had before it a memorandum from Peter Batten dated 25January 2011 re Invitation to Comment - Australian Water Accounting Standard 1.

The Board noted that the Water Accounting Standards Board (WASB) had issued an Exposure Draft of Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* together with Associated Model Reports, seeking comments by 30 June 2011. The proposed Standard deals with reporting balances, inflows and outflows of water by a water entity on a quantity, not value, basis. The Board agreed that staff should comment briefly as appropriate, assisted by a Board sub-committee where required.

The Board appointed a subcommittee (consisting of Mr Stevenson, Professor Godfrey and Ms Perry) to work with staff to finalise the submission.

Action:	Staff Subcommittee

Proposed dissenting opinion of Kevin M Stevenson regarding the publication of AASB 2011-X amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project (Agenda paper 12*, tabled*)

The Board considered the tabled agenda papers and re-considered its decision to include in AASB 101 Presentation of Financial Statements the ‘true and fair view’ paragraphs from IAS 1, which require an entity to depart from Standards if compliance would not give a true and fair view, when the relevant regulatory framework requires, or otherwise does not prohibit, such departures.

The Board confirmed that it would include the ‘true and fair view’ paragraphs from IAS 1 in AASB 101, but also would include an Aus paragraph that prohibits entities from using the paragraphs when Australian Accounting Standards form part of an entity’s regulatory framework.

The Board noted that its Basis for Conclusions should explain that:

(a) it is including the 'true and fair view' paragraphs for the sake of IFRS convergence and New Zealand convergence; and

(b) entities will need to determine whether the regulatory framework that applies to them includes Australian Accounting Standards.

The Board noted that staff will prepare draft text reflecting its decisions with a view to approving that text at the March 2011 AASB meeting, and that comment may also be sought on draft text out-of-session.

In light of the Board’s decision, Mr Stevenson withdrew his proposed dissent.

Action: Staff

AASB Members

Other Business

Agenda item 13

The Board had before it:

(a) a memorandum from Robert Keys and Peter Batten dated 27 January 2011 re Work Program (*Agenda paper 13.1*);

(b) AASB work program (December 2010) (*Agenda paper 13.1.A*);

(c) a summary of AASB work program (December 2010) (*Agenda paper 13.1.B*);

(d) the AASB submission to IASB on ED/2010/12 *Deferred Severe Hyperinflation* (*Agenda paper 13.2*);

(e) submissions to the AASB on ED206 *Severe Hyperinflation* (Submission 1) (*Agenda paper 13.3*);

(f) a letter to Trustees of the IFRS Foundation and completed questionnaire from the AASB dated 10 January 2011 re IFRS Interpretations Committee Review (*Agenda paper 13.4*);

(g) submissions to the AASB on ED 204 *Deferred Tax Recovery of Underlying Assets* (Submission 2) (*Agenda paper 13.5*);

(h) submissions to the AASB on ED 202 *Leases* (Submissions 14-16) (*Agenda paper 13.6*);

(i) a letter from the AASB to the Financial Reporting Panel (FRP) dated 20 December 2010 regarding the FRP Findings (*Agenda paper 13.7*);

(j) a letter from the FRP dated 2 February 2011 acknowledging the AASB's response and noting the request therein (*Agenda Paper 13.7.1*);

(k) a letter to the IASB from the AASB dated 14 December 2010 re Differential Reporting Findings (*Agenda paper 13.8*)

(l) a letter to the NZ Accounting Standards Review Board from the AASB dated 21 December 2010 re New Zealand Plans for Differential Reporting (Agenda paper 13.9);

(m) ASIC's review of 30 June 2010 financial reports and focuses for 31December 2010 (Agenda paper 13.10);

(n) AASB submission to IASB dated 10/December 2010 re ED/2010/9 Leases (Agenda Paper 13.12);

(o) Tier 2 Supplement to ED 198 Revenue from Contracts with Customers (submission 1) (Agenda paper 13.13)

(p) Tier 2 Supplement to ED 204 Deferred Tax: Recovery of Underlying Assets (Submission 1) (Agenda *paper 13.14*)

(q) a Memorandum from Peter Batten dated 25January 2011 re Interpretations Update (*Agenda paper 13.15*);

(r) *Interpretations - Issues in progress* (25 January 2011) (*Agenda paper 13.15.1*);

(s) the January 2011 *IFRIC Update* (*Agenda paper 13.16*);

(t) a Memorandum from Latif Oylan & Robert Keys dated 25 January 2011 re IMF GFSM 2001 Update (*Agenda paper 13.16*);

(u) an AASB staff submission dated 22 December 2010 on the IMF GFSM 2001 Update (*Agenda paper 13.16.1*);

(v) a January 2011 Consultation Paper: *Scoping study for a national not-for-profit regulator* (*Agenda paper 13.17*);

(w) a 2nd draft of Service Performance Reporting Paper 4 re Common features found in practice (*Agenda paper 13.18*);

(x) a letter to IASB from the AASB dated 27 January 2011 re Request for Views on Effective Dates and Transition Methods (*Agenda paper 13.19*);

(y) submissions on ED 198, 202R, 204 and 206 – Tier 2 (*Agenda paper 13.20*);

(z) submission on ITC24 *Effective Dates and Transition Methods* [submission 4] (*Agenda Paper 13.21);*

(aa) a press release from the IFRS Monitoring Board seeking public comment in its *Consultative Report on the Review of the IFRS Foundation's Governance* (*Agenda paper 13.22*, tabled);

(bb) the *Consultative Report on the Review of the IFRS Foundation's Governance* (*Agenda paper 13.23,* tabled); and

(cc) AASB Communications report for the period 9 December 2010 to 9 February 2011 (*Agenda paper 13.24, tabled*).

The Board noted the agenda papers.

In relation to agenda paper 13.17, *Treasury Consultation Paper: Scoping Study for a National Not-for-profit Regulator*, the purpose of which is to initiate discussion of policy options to inform the Government's future policy direction; the Board decided that the Chairman should respond to the Consultation Paper on behalf of the Board by acknowledging the issues raised and expressing support for the development of a regulatory framework that acknowledges the role of the AASB as the national accounting standard-setter.

Action: Staff
Chairman

In relation to agenda paper 13.20, which includes some constituent comments on RDR related cross-cutting issues, the Board decided that the issues should be discussed at its March 2011 meeting (at which time the staff should also provide a progress report on the research being undertaken into reporting entities.

Action: Staff
Chairman

In relation to agenda papers 13.22 and 13.23, relating to the IFRS Foundation Monitoring Board: Consultative Report on the Review of the IFRS Foundation's Governance, the Board noted that some of the questions relate directly to the IASB. The Board decided that staff should consider the extent to which the Board should comment on the Report and, if so, the nature of any comments to be made. Any draft comments should be circulated to Board members for out-of-session comment prior to being finalised by the Chairman.

Action: Staff
Chairman
AASB Members (out of session)

Review

Agenda item 14

The Board discussed a number of matters and requested that:

(a) the covering memoranda for agenda items provide a summary/overview of any associated papers;

(b) where different papers for voting or other action were being distributed in a short time frame, effort be made to batch them to help ensure actions were not overlooked; and

(c) a list of Board sub-committee memberships should be available

Action: Staff

Close of Meeting

The Chairman closed the meeting at 1.05 p.m. on Thursday 10 February 2011.

Approval

Signed by the Chairman as a correct record
this sixteenth day of March 2011.