



**Subject:** Minutes of the 108<sup>th</sup> meeting of the AASB

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

**Time(s):** Wednesday 9 June 2010 from 9.00 a.m. to 5.30 p.m.  
Thursday 10 June 2010 from 9.00 a.m. to 12.45 p.m.

All agenda items except item 18 were discussed in public.

## Attendance

**Members**

- Kevin Stevenson (Chairman)
- Glenn Appleyard
- Victor Clarke (in part – Agenda items 8 and 15 via telephone)
- Mark Jenkin
- Ian McPhee
- Kris Peach (via telephone)
- Joanna Perry
- Bruce Porter
- Brett Rix (Day 2)
- Robert Williams

**Apologies**

- Sue Highland
- John O'Grady
- Frank Palmer
- Brett Rix (Day 1)

**In Attendance Staff**

- Clark Anstis (in part)
- Dean Arden (in part)
- Natalie Batsakis (in part)
- Mischa Ginns (in part)
- Ahmad Hamidi (in part)
- Lisa Panetta (in part)
- Robert Keys
- Christina Ng (in part)
- Jim Paul (in part)
- Siva Sivanantham (in part)
- Joanna Spencer
- Angus Thomson
- Raymond Yu (in part)

Staff from the NZ FRSB dialled into the meeting for Agenda items 3, 5, 6 10, 11 and 15.

## Apologies, Agenda, Minutes, Matters Arising from Minutes and Declaration of Interests

Agenda Item 1

### Declarations of Interest

Members indicated that, in the normal course of their day-to-day professional responsibilities, they deal with a broad range of financial reporting issues. Members have adopted the standing policy in respect of declarations of interest that a specific declaration will be made where there is a particular interest in an issue before the Board.

### Minutes

The Board confirmed the minutes of the one hundred and seventh meeting held on 17 May 2010.

### Chairman's Report

Agenda Item 2

The Chairman:

- (a) acknowledged the passing of James Priddice who was a member of the Accounting Standards Board of the Australian Accounting Research Foundation;
- (b) advised Members that he had accepted an invitation to join the IPSASB Framework Panel; and
- (c) informed the Board that he, jointly with the AOSSG Chairman, had communicated with the IASB requesting an extension to the comment date on ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* to allow constituents to consider the content of the FASB's ED *Accounting for Financial Instruments* in light of the IASB's Request for comment on the FASB ED.

### Liabilities

Agenda Item 3

The Board had before it:

- (a) a memorandum from Mischa Ginns and Jim Paul dated 27 May 2010 (Agenda paper 3.1); and
- (b) a staff paper: PBE/NFP-specific modifications to the IFRS to replace IAS 37 (Agenda paper 3.2).

The Board considered:

- (a) whether the public benefit entity (PBE)/not-for-profit (NFP) entity modification in the Australian Standard incorporating the IFRS that replaces IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be in the form of guidance or a scope exclusion; and
- (b) the due process for making that modification.

The Board decided:

- (a) to carry forward the guidance in paragraphs Aus26.1 and Aus26.2 of AASB 137, about when a local government, government department or government incurs a liability in respect of a local government's or government's existing policy, budget policy, election promise or statement of intent;
- (b) to amend paragraphs Aus26.1 and Aus26.2 of AASB 137 to the extent necessary to accommodate changes between IAS 37 and its replacement IFRS; and
- (c) that there is no need to expose the guidance for public comment because it will be substantially unchanged, and the Board's decision to change the scope of the guidance from local governments, government departments and governments to public sector NFP entities should not result in a significant change in practice.

Action:

Staff

## Interpretations

### Agenda Item 4

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 2 June 2010 (Agenda paper 4.1);
- (b) a paper: Interpretation issues in progress (2 June 2010) (Agenda paper 4.2);
- (c) a memorandum from Joanna Spencer dated 2 June 2010 (Agenda paper 4.3);
- (d) a memorandum from Joanna Spencer dated 2 June 2010 (Agenda paper 4.4);
- (e) a memorandum from Joanna Spencer dated 2 June 2010 (Agenda paper 4.5);
- (f) IFRIC Update May 2010 (Agenda paper 4.6);
- (g) a memorandum from Joanna Spencer dated 2 June 2010 (Agenda paper 4.7);
- (h) draft AASB 1048 Interpretation of Standards – full version – marked up copy (Agenda paper 4.8.1)
- (i) draft AASB 1048 Interpretation of Standards – full version – clean copy (Agenda paper 4.8.2);
- (j) draft AASB 1048 Interpretation of Standards – abbreviated version – marked up (Agenda paper 4.9.1); and
- (k) draft AASB 1048 Interpretation of Standards – abbreviated version – clean copy (Agenda paper 4.9.2).

The Board received an update on the IFRS Interpretations Committee's May 2010 meeting, which included an update on three current projects; vesting and non-vesting conditions for share-based payment transactions, accounting for production stripping costs and put options written over non-controlling interests.

The Board was also informed that a joint letter from the FRSB and AASB had been sent to the Committee regarding the issue concerning disclosures under IAS 24 *Related Party Disclosures* about key management personnel of managed investment schemes and whether the definition of key management personnel can include an entity. This issue was discussed at the April 2010 National Standard Setters meeting in Seoul and other jurisdictions agreed that the issue should be addressed by the Committee.

The Board also noted the Committee's tentative and final agenda decisions, and decisions on annual improvements and work in progress.

The Board also decided to vote out of session on making a revised version of AASB 1048 *Interpretation and Application of Standards*. The revised AASB 1048 will no longer list all versions of Interpretations that have been superseded, and will be renamed as *Interpretation of Standards*.

Action: Staff  
Members

## Financial Instruments – Financial Asset Impairment

### Agenda Item 5

The Board had before it:

- (a) a memorandum from Christina Ng and Angus Thomson dated 2 June 2010 (Agenda paper 5.1);
- (b) staff paper: Issues and key comments on ED/2009/12 (Agenda paper 5.2);
- (c) AASB ED 189 *Financial Instruments: Amortised Cost and Impairment*, which incorporates IASB ED/2009/12 (Agenda paper 5.3);
- (d) FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (Agenda paper 5.4);
- (e) European Banking Federation paper *Impairment expected loss model* (Agenda paper 5.5); and
- (f) Australian comment letters to ED 189 (Agenda paper 5.6).

The Board considered a staff paper (Agenda paper 5.2) identifying key issues and comments for inclusion in its submission letter to the IASB in response to ED/2009/12. The Board also noted that the IASB has issued a Request for comment on the FASB ED and that comments raised in the staff paper include views on the FASB ED, where it relates to financial asset impairment.

In general, the Board agreed with the staff views and is not supportive of the proposed expected loss impairment model. In particular:

- (a) the Board is concerned that the proposed impairment model is not based on a clear measurement attribute. The Board considers that recognising impairments through a revenue recognition methodology is a departure from recognising the impact of transactions and events as they occur, which underpins a cost-based measure. The Board has also been informed that the IASB's proposals do not reflect the business model of most entities engaged in lending activities, because they manage revenue recognition and asset impairment as separate business functions;
- (b) the Board also disagrees with the proposal to separately account for initial and subsequent credit losses on the basis that it would:
  - (i) obscure the information provided in the net interest margin and an overall assessment of impairments;
  - (ii) render the 'open portfolio' approach impracticable as initial expectations of credit losses that have been embedded in the effective interest rate calculation for a portfolio of loans would be prohibited from being recalculated and accordingly, new loans could not be factored into those initial expectations; and
- (c) the Board is concerned that the proposed impairment methodology results in amounts relating to factors other than credit risk being recognised as impairment losses. That is, the proposed catch-up adjustment would not be able to distinguish credit loss deterioration from other factors that might cause a shift in the yield curve in the case of variable rate instruments;
- (d) the Board supports many of the proposed disclosures, such as a reconciliation of the allowance account, estimates and changes in estimates, and a reconciliation of changes in non-performing financial assets and a qualitative analysis of the interaction between changes in non-performing financial assets and changes in the allowance account. However, the Board is concerned about the usefulness and extent of some of the proposed disclosures, including disclosures on cumulative loss development, stress testing and vintage information;
- (e) the Board is concerned that the proposed impairment model focuses on entities that are in the business of lending money, and may be inappropriate for other types of entities. The Board considers that, even taking into consideration practical expedients, the proposed impairment model would be complex to apply.

As an alternative to the proposed impairment model, the Board considers that the IASB should retain a form of incurred loss model as it corresponds to a cost-based measurement basis for financial assets at amortised cost under IFRS 9 *Financial Instruments*. The incurred loss model in IAS 39 could be modified to recognise losses earlier, by acknowledging that a wider range of events, for example, information about the economic environment in general would give rise to incurred losses, rather than waiting for a specific event, for example, a debtor defaulting on its payments, to occur. Consistent with acknowledging a wider range of events in loss recognition, the Board considers that the IASB should examine the notion of an incurred but not reported (IBNR) loss model, and observes similarities between the notion of IBNR and the proposed impairment model in the FASB ED.

The Board decided to finalise its submission to the IASB out-of-session through a subcommittee comprising Mr Palmer, Ms Peach, Ms Perry and the Chairman.

Action:	Staff
	Mr Palmer
	Ms Peach
	Ms Perry
	Chairman

## Financial Instruments – Fair Value Option for Financial Liabilities

Agenda Item 6

The Board had before it:

- (a) a memorandum from Natalie Batsakis and Christina Ng dated 2 June 2010 (Agenda paper 6.1); and
- (b) AASB ED 196 *Fair Value Option for Financial Liabilities*, which incorporates IASB ED/2010/4 (Agenda paper 6.2).

The Board considered a memorandum (Agenda paper 6.1) identifying key issues and preliminary staff comments on ED/2010/4. The Board also noted that the IASB has issued a Request for comment on the FASB ED *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (May 2010) and that comments raised in the staff paper include views on the FASB ED, where it relates to the topic.

The Board agreed to comment that:

- (a) a clear measurement attribute should be applied to financial liabilities designated at fair value—if fair value has been chosen, the accounting should be fair value through profit or loss without separately measuring and re-presenting the effects of changes in a liability's credit risk from profit or loss to other comprehensive income.
- (b) the IASB's proposed methodology prescribed in IFRS 7 *Financial Instruments: Disclosures* as a reasonable proxy to determine the adjustment would not be appropriate as a reliable measure;
- (c) if the IASB is to address the issue of counter-intuitive gains from a deterioration of an entity's own credit risk, it is inappropriate to focus only on financial liabilities designated at fair value through profit or loss. Credit risk plays a role in determining the value of all liabilities measured at fair value or any other current value basis, such as liabilities measured in accordance with IAS 17 *Leases*, IAS 19 *Employee Benefits* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and not just financial liabilities; and
- (d) whilst feedback received by the IASB indicates that there is little demand for changing most of the other requirements under IAS 39 for financial liabilities, the Board is particularly concerned that in making its decision to retain the existing requirements for hybrid financial liabilities, the IASB has not given sufficient consideration to the inconsistency in the general measurement models in light of the changed requirements for hybrid financial assets in IFRS 9. The IASB should articulate why it considers it appropriate to determine the classification and measurement of embedded derivatives with financial asset hosts in their entirety, but not for embedded derivatives with financial liability hosts. The Board noted that the FASB has proposed symmetry of the measurement principles for hybrid financial assets and hybrid financial liabilities.

Comments are due on ED 196 to the AASB by 2 July 2010 and on ED/2010/4 to the IASB by 16 July 2010. The Board will consider constituent input on ED 196 when finalising its submission to the IASB, out-of-session, through a subcommittee comprising Mr Palmer, Ms Perry and the Chairman.

Action:	Staff
	Mr Palmer
	Ms Perry
	Chairman

## Unused Agenda item No.

Agenda Item 7

## Superannuation

Agenda Item 8

The Board had before it:

- (a) a memorandum from Dean Ardern dated 27 May 2010 (Agenda paper 8.1);

- (b) an issues paper discussing the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 *Employee Benefits* for measuring defined benefit obligations (Agenda paper 8.2);
- (c) a copy of a submission on some of the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* from Towers Watson (dated 18 May 2010) (Agenda paper 8.3); and
- (d) a proposed timetable for completing a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* (Agenda paper 8.4).

The Board considered Agenda paper 8.2 and noted that:

- (a) superannuation plans currently measure any obligations to their defined benefit members arising from the insurance arrangements they provide to such members as a part of the members' accrued benefits figure reported under AAS 25;
- (b) consistent with the Board's policy of transaction-neutrality, similar insurance arrangements should be treated in a similar manner under a replacement Standard for AAS 25. Accordingly, for the purpose of measurement, the replacement Standard should not distinguish between obligations arising from insurance arrangements to members on the basis of the nature of members' retirement benefits;
- (c) defined benefit obligations determined under AASB 119 would incorporate any relevant death and disability benefits, and many life insurance liabilities under AASB 1038 *Life Insurance Contracts* would incorporate both life insurance and deposit components;
- (d) an obligation to defined benefit members arising from their insurance arrangements is likely to be measured at a similar amount under the accumulation approach in AASB 1038 as it would be under the approach in AASB 119 for defined benefit obligations; and
- (e) the IASB has tentatively decided that the scope of a replacement Standard for IFRS 4 *Insurance Contracts* should exclude, among other things, employers' assets and liabilities under employee benefit plans and retirement benefit obligations reported by defined benefit retirement plans.

The Board tentatively decided that, under a replacement Standard for AAS 25:

- (a) any obligations to defined benefit members arising from insurance arrangements provided by a plan should be measured as a part of the plan's obligation for such members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations;
- (b) to facilitate consistency with the measurement of insurance obligations in relation to defined benefit members, any obligations to defined contribution members arising from insurance arrangements provided by a plan or approved deposit fund (ADF) should be measured by the plan or ADF in accordance with the approach in AASB 119 for defined benefit obligations; and
- (c) consistent with the approach under AASB 1038, any assets arising from insurance arrangements provided by a plan or ADF, such as reinsurance assets, should be recognised separately from insurance liabilities in the plan's or ADF's statement of financial position.

In addition, the Board agreed that, in light of the IASB's active project with the FASB on insurance contracts, it would reconsider the accounting for insurance contracts by superannuation entities once the IASB has finalised its thinking on insurance contracts.

The Board directed staff to consider the implications of its tentative decisions, including the types of disclosures a plan or ADF might provide in relation to obligations arising from the insurance arrangements it provides to its members under a replacement Standard for AAS 25, and prepare appropriate issues papers for its consideration at a future meeting.

Action:

Staff

## Extractive Activities

Agenda Item 9

The Board had before it:

- (a) a memorandum from Joanna Spencer dated 26 May 2010 (Agenda paper 9.1); and
- (b) a PowerPoint presentation: Extractive Activities Research Project (Agenda paper 9.2).

The Board participated in an education session on the IASB's Discussion Paper DP/2010/1 *Extractive Activities*, (which was issued by the AASB as ITC 23 *Extractive Activities*). The Board was informed that the DP, which contains the Project Team's views and not those of the IASB, proposes that:

- (a) a common basis for defining 'reserves and resources' for minerals or oil and gas should be used;
- (b) the initial focus for accounting for mineral or oil and gas properties should be the legal rights to that property and the value of those rights may increase as knowledge about the property increases; and
- (c) minerals or oil and gas properties should be measured at historical cost supplemented with detailed disclosure about the property.

The Board agrees with the project teams view that legal rights, such as exploration or extraction rights should form the basis of an asset referred to as a 'minerals or oil and gas property' but did not agree with the proposal that this asset be measured at historical cost.

The Board agreed that, at the July 2010 meeting, staff would present an issues paper taking into account constituent comments and Board member comments.

Action:

Staff

## Conceptual Framework – Reporting Entity

Agenda Item 10

The Board had before it:

- (a) a memorandum from Jim Paul dated 27 May 2010 (Agenda paper 10.1);
- (b) AASB Staff Paper *Conceptual Framework: The Reporting Entity* (Agenda paper 10.2); and
- (c) AASB ED 193 *Conceptual Framework for Financial Reporting: The Reporting Entity*, which incorporates the IASB ED of the same title (Agenda paper 10.3).

The Board considered the IASB Exposure Draft and AASB Staff Paper and tentatively decided:

- (a) to support the IASB's proposed description of a reporting entity (namely, "A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided");
- (b) to generally support the ED's proposed purposes, which are to identify the boundaries of an entity that prepares general purpose financial reports and the circumstances in which consolidated financial statements should be prepared;
- (c) to support the proposed description of a circumscribed area of economic activities as "those economic activities (that) can be objectively distinguished from those of other entities and from the economic environment in which the entity exists";
- (d) to support the IASB's proposal that, if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements;
- (e) to agree with the proposed definition of control of an entity, if that definition is included in the Reporting Entity chapter of the *Framework* (see also the first paragraph below);
- (f) to support the IASB's proposal that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity. For example, the Board agrees that economic activities conducted with a collection of assets working together may qualify as a reporting entity. The Board's qualification is that the general purpose financial report should not be purported to be that of the only entity to which that collection of assets belongs, if a larger entity exists;
- (g) to support the IASB's proposal that completion of the reporting entity concept should not be delayed until the IASB's and FASB's common Standards on Consolidation have been issued;

- (h) it is unnecessary for the Reporting Entity chapter of the *Framework* to be extended to discuss whether financial statements held out to be prepared in accordance with IFRSs should be deemed to be prepared in respect of a reporting entity; and
- (i) the Reporting Entity chapter of the *Framework* should be extended to explain the circumstances in which an entity need not prepare general purpose financial reports if it is a portion of an entity that prepares general purpose financial reports. Among other things, that rationale would provide a basis for assessing whether to retain in IAS 27 *Consolidated and Separate Financial Statements*:
  - (i) the exemption for a parent from having to present consolidated financial statements if:
    - (A) they have a parent that produces publicly available IFRS-compliant consolidated financial statements;
    - (B) they are, in effect, not publicly accountable; and
    - (C) they are either:
      - a wholly-owned subsidiary; or
      - a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
  - and
  - (ii) the requirement for parent entities that are publicly accountable to prepare consolidated financial statements regardless of whether they would otherwise meet the criteria for exemption mentioned in (i) above.

The Board discussed whether control should be discussed in the Reporting Entity chapter, in view of the proposal to describe a reporting entity as a circumscribed area of economic activities whose financial information has the potential to be useful to dependent users. Some Board members noted that the concept of control is not required to identify the boundaries of a reporting entity when that reporting entity is a portion of a single entity (for example, a collection of assets that comprises objectively distinguishable economic activities). Other Board members noted that control is important for the other objective of the chapter, namely, to identify when consolidated financial statements should be prepared. Control is mentioned in the proposed chapter only in the context of consolidated financial statements, parent-only financial statements and combined financial statements. Therefore, the Board did not resolve to recommend removing the discussion of control from the chapter. The Board directed staff to identify any instances in the Reporting Entity chapter or attached Basis for Conclusions in which the context of control is expressed ambiguously, and, if such instances exist, to note them in the draft Board submission.

The Board tentatively decided to recommend that the revised IASB *Framework* should separately include concepts identifying the characteristics of entities that should, in principle, be required to prepare general purpose financial reports.

These Board decisions are subject to considering the comment letters it receives on AASB ED 193 (which incorporates the IASB ED). If major unexpected issues arise from the submissions, a Board teleconference may be necessary. The Chairman will review and approve the submission.

Action:	Staff
	Members
	Chairman

## **Conceptual Framework – Objective and Qualitative Characteristics: Application by Not-for-Profit Entities**

Agenda Item 11

The Board had before it:

- (a) a memorandum from Jim Paul dated 2 June 2010 (Agenda paper 11.1); and
- (b) AASB Staff Paper 'New *Framework* chapters: application by public benefit entities/not-for-profit entities' (Agenda paper 11.2).



The Board considered the staff paper and decided that:

- (a) the IASB's forthcoming Conceptual Framework chapters on the *Objective of General Purpose Financial Reporting* and the *Qualitative Characteristics of, and Constraints on, Useful Financial Information* should, when included in the *AASB Framework*, be applicable to all reporting entities;
- (b) those chapters will include limited additional guidance necessary for their application by not-for-profit entities (NFPs);
- (c) based on the latest information about the likely wording of the IASB's abovementioned forthcoming *Framework* chapters, the additional guidance on the new Objective chapter of the *AASB Framework* should:
  - (i) repeat paragraph Aus15.1 of the existing *AASB Framework* (which says: "In respect of not-for-profit entities, ownership groups and contributors of donations are generally not concerned with obtaining a financial return but are usually more interested in the ability of an entity to achieve its non-financial objectives, which in turn may depend upon the entity's financial position and financial performance."); and
  - (ii) note the broader range of primary users of general purpose financial reports of NFPs;
- (d) paragraph Aus14.1 of the AASB's existing *Framework* (which says, "A more detailed discussion [of the Objective] is provided in SAC 2 *Objective of General Purpose Financial Reporting*") should not be included in the new chapter on the Objective;
- (e) based on the latest information about the likely wording of the IASB's forthcoming *Framework* chapter on the Qualitative Characteristics, additional application guidance for NFPs in relation to that chapter should be unnecessary;
- (f) the chapters will be updated to reflect the outcome of the IASB's consideration of not-for-profit entity issues in Phase G of its joint Conceptual Framework project with the FASB. The Board will also consider whether to amend the chapters in the light of the IPSASB's Conceptual Framework after it is completed; and
- (g) the additional application guidance for NFPs in relation to the new *Framework* chapters does not require public exposure.

The Board directed staff to circulate the proposed additional guidance for NFPs for approval out of session. That step is to be taken following the release of the finalised new chapters of the *IASB Framework*. Board members noted that they will consider whether those finalised new chapters and proposed additional guidance:

- (a) give sufficient emphasis to accountability as an objective, or component of the objective, of general purpose financial reporting; and
- (b) adequately acknowledge that users of general purpose financial reports of not-for-profit entities will be interested in:
  - (i) the ability of the entity's available resources to deliver future goods and services;
  - (ii) the quality, cost and effectiveness of goods and services that have been delivered in the past; and
  - (iii) how well the entity is meeting its objectives, which are not primarily related to cash generation.

Action:

Staff  
Members

## Unused Agenda item No.

Agenda Item 12

## Improvements to IFRSs

Agenda Item 13

The Board had before it:

- (a) a memorandum from Raymond Yu and Clark Anstis dated 26 May 2010 (Agenda paper 13.1);
- (b) *AASB 2010-X Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (Agenda paper 13.2);
- (c) *AASB 2010-Y Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (Agenda paper 13.3); and
- (d) *Improvements to IFRSs* (May 2010) (Agenda paper 13.4).

The Board agreed the draft amending Standards should be circulated as ballot drafts for the Board to make out of session.

Action: Staff  
Members

## Unused Agenda item No.

Agenda Item 14

## Differential Reporting

Agenda Item 15

The Board had before it:

- (a) a memorandum from Ahmad-Hamidi and Lisa Panetta dated 2 June 2010 (Agenda paper 15.1);
- (b) Public Accountability – Analysis of Constituent Comments (Agenda paper 15.2);
- (c) Choosing Between Tiers – Guidance for Public Sector (Agenda paper 15.3);
- (d) Brief Summary of Comments by NZ Respondents to Questions relating to Criteria for Distinguishing between Tiers (Agenda paper 15.4);
- (e) Transitional Provisions: An Analysis of Various Scenarios (Agenda paper 15.5);
- (f) Draft Application Standard (Agenda paper 15.6);
- (g) Differential Reporting – Further Sweep Issues (Agenda paper 15.7);
- (h) Draft Amending Standard (Agenda paper 15.8); and
- (i) a late submission on ED 192 (Agenda paper 15.9).

The Board decided that:

- (a) in relation to small APRA funds, the explanation in paragraph 26 of the draft Standard should be amended so that such entities are not deemed to be publicly accountable;
- (b) the transitional provisions should explicitly include guidance in regard to for-profit public sector entities;
- (d) the application standard should not include any formal criteria or guidance for the purpose of assisting public sector jurisdictions to determine which entities in the jurisdiction should be applying Tier 1 or Tier 2. Rather, the basis for conclusions should note different factors that public sector jurisdictions could take into account in formulating criteria for use in individual jurisdictions, including the power to tax, rate or levy;
- (e) General Government Sector financial statements would not be specifically identified as general purpose but would be subject to Tier 1 reporting requirements. The Application Standard should include in its application paragraph that it applies to financial statements of GGSs prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. As a consequence, paragraphs 9 and 10 of draft Application Standard are no longer needed;
- (f) the following amendments should be made to the draft Application Standard:
  - (i) paragraph 12(c) should explicitly refer to for-profit public sector entities as entities that, as a minimum, apply Tier 2 reporting requirements;

- (ii) paragraphs 14 to 19 should be omitted. The application paragraph of standards would indicate whether they are applicable to Tier 1 or Tier 2 entities;
  - (iii) paragraph 11 of the draft Application Standard should be amended to clarify that regulators' powers to require the application of Tier 1 reporting requirements exists in relation to both for-profit and not-for-profit entities; and
  - (iv) the requirements of paragraph 30 of the draft Application Standard in regard to first-time adoption of Australian Accounting Standards – Reduced Disclosure Requirements should be transferred to AASB 1 and included as a RDR paragraph. However, it should be clarified that entities that apply Australian Accounting Standards – Reduced Disclosure Requirements would not be able to state compliance with IFRSs;
- (g) consistent with shading disclosure requirements of Australian Accounting Standards that do not apply to Tier 2 entities, the disclosure requirements of Standards that only apply to Tier 1 entities should also be shaded. This also applies to disclosures within some Australian Accounting Standards that apply only to Tier 1 entities.
- (h) the flowcharts set out in Agenda paper 15.5 in relation to transitional provisions should be included in the Application Standard;
- (i) the issue raised in paragraph 7(b) of agenda paper 15.5 regarding the failure by some entities to include a statement of compliance with IFRSs despite otherwise applying AASB 1 on transition to IFRSs is of an educational nature and needs to be progressed by the profession;
- (j) The transitional provisions should explain the reason entities preparing SPFSs and applying the relevant recognition and measurement requirements of Australian Accounting Standards including those of AASB 1, should apply AASB 1 in full on transition to Tier 1 is that AASB 1 disclosure requirements may not have been applied by these entities; and
- (k) staff should prepare a short paper to illustrate how paragraph RDR 81.1 of AASB 112 in substitution for other requirements in paragraph 91 of AASB 101 and paragraph 81 of AASB 112, regarding the presentation of tax related to other comprehensive income would help reduce the disclosure burden for Tier 2 entities in the disclosure of the income tax relating to other comprehensive income;
- (l) the application date of the Application Standard should be redrafted to allow early adoption; and
- (m) Disclosure requirement of the Standards reflected in schedules 1, 2 and 3 in Agenda paper 15.7 should be dealt with in accordance with final Staff recommendations set out in that paper.

The Board directed staff to amend and progress the draft Application and Amending Standards to the pre-ballot stage for consideration out of session.

Action:

Staff

## **IPSASB – Service Concession Arrangements: Grantor**

Agenda Item 16

The Board had before it:

- (a) a memorandum from Clark Anstis and Siva Sivanantham dated 2 June 2010 (Agenda paper 16.1);
- (b) an issues paper – Issues for submission to IPSASB? (Agenda paper 16.2);
- (c) Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft “Service Concession Arrangements: Grantor”* (Agenda paper 16.3); and
- (d) submissions on ED 194 (Agenda paper 16.4).

The Board considered constituents' comments on ED 194 and discussed the main points to be included in its submission to the IPSASB. The Board decided that its submission should:

- (a) support the scope of the proposed Standard, with reference to both the description in the ED of service concession arrangements (rather than a definition) and the same grantor control criteria as in IFRIC Interpretation 12 *Service Concession Arrangements*;

- (b) note that, although Government Business Enterprises could be grantors, the Board did not support extending the scope of the proposed Standard to include GBEs, given the IPSASB's general exclusion of GBEs from the scope of its Standards;
- (c) suggest that BOOT (build-own-operate-transfer) arrangements might be identified in the proposed Standard or its Basis for Conclusions as a type of BOT (build-operate-transfer) arrangement and thus covered by the requirements;
- (d) support the IPSASB's reference to "any significant residual interest" in paragraph 10(b) of the ED and the coverage of whole-of-life service concession arrangements;
- (e) express the view that the grantor should recognise a service concession asset constructed by the operator as construction takes place, irrespective of whether the construction risk is borne by the grantor or the operator;
- (f) accept the IPSASB proceeding with the performance obligations approach, but with clarification of the following aspects:
  - (i) why a performance obligation should be recognised only to the extent that the grantor's payment obligation (financial liability) falls short of the fair value of the service concession assets;
  - (ii) whether the grantor has a performance obligation in respect of its existing assets that are reclassified as service concession assets, and if not, why not; and
  - (iii) whether the performance obligation approach is proposed essentially as a means of deferring revenue recognition by grantor;
- (g) note that it would be useful to require separate (rather than combined) disclosure of service concession assets recognised during the period and of existing assets of the grantor reclassified as service concession assets during the period – at present, these amounts could be combined in the one disclosure required by paragraph 27(c)(iii) of the ED, even though paragraph 12 appears to suggest that separate disclosure is intended; and
- (h) propose retrospective (rather than prospective) application of the Standard when first applied by an entity.

The Board requested staff to consider whether the references to regulation in the ED are appropriate from the grantor's perspective.

It was agreed that a subcommittee comprising the Chairman and Messrs Appleyard, Jenkin, McPhee and Rix will finalise the Board's submission to the IPSASB out of session.

Action:	Staff
	Mr Appleyard
	Mr Jenkin
	Mr McPhee
	Mr Rix
	Chairman

## Other Business

### Agenda Item 17

The Board had before it:

- (a) a list of current and expected shortly IASB/IPSASB/NSS/IASCF documents open for comment, as at 19 May 2010 (Agenda paper 17.1);
- (b) *FRSB Alert* by Vanessa Sealy-Fisher, Senior Project Manager – Accounting Standards (Summary as at 5 May 2010) (Agenda paper 17.2);
- (c) a letter from Kevin Stevenson, AASB Chairman and Joanna Perry, FRSB Chairman dated 2 June 2010 to Michael Stewart, IASB re Key Management Personnel (Agenda paper 17.3);
- (d) a letter from Kevin Stevenson, AASB Chairman to David Tweedie, IASB Chairman dated 20 May 2010 re ED 2010/1 Measurement of Liabilities in IAS 37 (Agenda paper 17.4);

- (e) a letter from Kevin Stevenson, AASB Chairman to Stephenie Fox, Technical Director IPSASB dated 7 April 2010 re IPSASB Consultation Paper Reporting on Long-term Sustainability of Public Finances (Agenda paper 17.5);
- (f) a letter from David Tweedie, IASB Chairman and Robert Hertz, FASB Chairman to the Honourable Yoon, Jeung-Hyun Minister of Strategy and Finance, Ministry of Strategy and Finance, The Republic of Korea, dated 2 June 2010 re Joint Convergence Efforts (Agenda paper 17.6);
- (g) a Joint Statement by the IASB and the FASB on their convergence work (Agenda paper 17.7);
- (h) IASB and FASB Commitment to Memorandum of Understanding – Quarterly Progress Report 31 March 2010 (Agenda paper 17.8).

The Board noted the correspondence.

## **Close of Meeting**

The Chairman closed the meeting at 12.45 p.m. on Thursday 10 June 2010.

## **Approval**

Signed by the Chairman as a correct record  
this thirtieth Day of July 2010