



Subject: Minutes of the 120th meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 26 October 2011 from 9.00 a.m. to 5.00 p.m.

All agenda items except items 1 and 18 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chair) Glenn Appleyard Victor Clarke Michele Embling (by telephone) Sue Highland John O'Grady Brett Rix Robert Williams Roger Sexton Jayne Godfrey Anna Crawford
Apologies	Kris Peach (Deputy Chair)
In Attendance: Staff	Clark Anstis (in part) Mischa Ginns (in part) Nikole Gyles (in part) Ahmad Hamidi Ravari (in part) Robert Keys Sue Lightfoot (in part) Christina Ng (in part) (by telephone) Shu In Oei (in part) Lisa Panetta (in part) Jim Paul (in part) Angus Thomson
Other	Joanna Perry – Observer (in part) (by telephone) Judith Downes – IFRS Advisory Council (item 6)



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

An apology was noted for Kris Peach who was overseas.

Minutes

The Board approved the minutes of the one hundred and nineteenth meeting held on 7-8 September 2011.

Chairman's Report

Asian-Oceanian Standard-Setters Group (AOSSG)

The Board was updated on arrangements for the third annual AOSSG meeting to be held in Melbourne on 23-24 November 2011. Members of the public are welcome to join the audience for that meeting. Board members were encouraged to read the AOSSG Vision Paper (http://www.aossg.org/docs/About_Us/Vision_Paper.pdf) as background to the meeting and were invited to the formal dinner to be held on Wednesday 23 November 2011.

Involvement with other bodies

The Chairman advised the Board regarding the five task forces of the Financial Reporting Council currently in progress. He also updated the Board on three international meetings recently attended, being National Standard Setters (NSS), World Standard Setters (WSS) and an informal meeting of AOSSG. The Board also noted that due to changes in next year's meeting dates for the NSS and WSS, the AASB meeting previously scheduled for 24-25 October will be deferred to 31 October-1 November 2012.

Thought Leadership

The Chairman advised the Board on recent 'thought leadership' activities, including the involvement of Warren McGregor regarding an Occasional Paper on Long-term Liabilities.

Proposals to reform the (United Kingdom) Financial Reporting Council

The Chairman advised the Board that the UK Financial Reporting Council had issued a Consultation Paper for public comment. Members agreed to consider at the next meeting whether to make a submission.



AASB Annual Report

The Chairman advised that the Annual Report has been finalised and is shortly expected to be tabled by the relevant Minister.

Approvals out of session

The Board had before it a Voting Summary (agenda paper 2.2, tabled). The Board noted its approvals, including ED 221 *Government Loans* issued under its delegated authority for the staff/Chairman to issue IASB consultation documents where there is no significant additional Australian material.

Other Business

Agenda Item 3

The Board had before it:

- (a) a memorandum from Peter Batten and Robert Keys dated 10 October 2011 re: Work Program and Consultation Submissions Pipeline (agenda paper 3.1);
- (b) Summary of AASB Work Program (September 2011) (agenda paper 3.1.1);
- (c) Detailed AASB Work Program (September 2011) (agenda paper 3.1.2);
- (d) Consultation Submissions Pipeline Report (10 October 2011) (Board only) (agenda paper 3.1.3);
- (e) AASB Sub-committee membership as at 30 September 2011 (Board only) (agenda paper 3.2);
- (f) Email correspondence from Lisa Panetta to Michael Stewart, IASB Director of Implementation Activities dated 10 October 2011 re: IFRS 10 transitional requirements (agenda paper 3.3);
- (g) AASB submission to the IASB on Annual Improvements dated 11 October 2011 (agenda paper 3.4);
- (h) ED 213 *Improvements to IFRSs* submissions 2 and 3 (agenda paper 3.4.1);
- (i) Letter from the AASB Chairman to Grant Hehir, Chair of the FRC Public Sector Financial Reporting Task Force dated 11 October 2011 re: IPSASs (agenda paper 3.5);
- (j) Journal article *Blueprint for Charities* by Colin Parker and Carmen Ridley (agenda paper 3.6);
- (k) Letter from the AASB Chairman to Wayne Upton, Chairman IFRS Interpretations Committee re: IAS 12 *Income Tax* – Rebuttable presumption to determine the manner of recovery (agenda paper 3.7, tabled);
- (l) International Integrated Reporting Committee Discussion Paper *Towards Integrated Reporting – Communicating Value in the 21st Century* (agenda paper 3.8, tabled);
- (m) QBE response to IASB re ED/2011/3 *Mandatory Effective Date of IFRS 9* (agenda paper 3.9, tabled);
- (n) Institute of Public Accountants' response to EFRAG re its Discussion Paper *Considering the Effects of Accounting Standards* (agenda paper 3.10, tabled);



- (o) Letter from the AASB Chairman to Hans Hoogervorst, IASB Chairman re: AASB comments on IASB ED 2011/3 *Mandatory Date of IFRS 9* (agenda paper 3.11, tabled); and
- (p) November 2011 IFRS Interpretations Committee Meeting Update – 24 October 2011 and *IFRIC Update* September 2011 (agenda paper 3.12, tabled).

The Board noted the agenda papers. Agenda papers 3.8 and 3.12 were considered under item 17.

The Board also took the opportunity of her final Board attendance to thank Ting Lin, graduate intern, for her service and wish her well for her future.

IPSASB Report

Agenda Item 4

The Board had before it:

- (a) a memorandum from Clark Anstis dated 11 October 2011 (agenda paper 4.1);
- (b) a report on the IPSASB meeting, September 2011 (agenda paper 4.2); and
- (c) an issues paper re IPSAS 32 *Service Concession Arrangements: Grantor* (September 2011) (agenda paper 4.3).

The Board received an update on the September 2011 meeting of the IPSASB and discussed a range of issues.

The Board noted that the IPSASB commenced its consideration of the submissions received on various Conceptual Framework proposal documents and that the IPSASB discussed presentation and disclosure (phase 4 of the Conceptual Framework project), with a revised draft Consultation Paper to be considered at its next meeting for approval.

At its meeting, the IPSASB also approved an ED on reporting on the long-term sustainability of a public sector entity's finances and a Consultation Paper on reporting service performance information. Other topics discussed by the IPSASB included entity combinations, updating the consolidation and joint arrangements Standards, and financial statement discussion and analysis. The Board noted that it intended to develop submissions to the IPSASB on the ED and the Consultation Paper.

The Board also noted that the IPSASB had approved a Standard on accounting for service concession arrangements by grantors, which is expected to be finalised and published in the near future. The Board confirmed that once the IPSASB finalises its Standard, the Board will seek to develop an Australian ED based on that Standard. The ED may include proposed requirements that differ from the IPSASB Standard. The Board decided that its sub-committee on service concession arrangements should undertake the initial work with staff in developing the ED. Mr Williams agreed to join the sub-committee. The continuing members of the sub-committee are Glenn Appleyard, Ian McPhee, Brett Rix and Kevin Stevenson.

Action:	Staff
	Sub-committee



Carbon Tax

Agenda Item 5

The Board had before it:

- (a) a memorandum from Ahmad Hamidi dated 11 October 2011 (agenda paper 5.1); and
- (b) Staff Paper: Possible Reporting Implications of the Fixed Price Phase of the Proposed Carbon Price Mechanism (agenda paper 5.2).

The Board continued its discussion of the possible implications of applying existing Australian Accounting Standards in accounting by emitters and the Government under a carbon tax mechanism during a fixed-price period.

The Board confirmed that it does not expect an Interpretation on this topic would be warranted. It also confirmed that it saw merit in AASB staff assisting constituents who might be affected by the tax by publishing a paper that draws out the relevant accounting issues. Accordingly, the purpose of the Board's discussion was to provide input to a draft staff paper by identifying any additional issues and viewpoints to be considered.

Based on the Board's discussion, staff will further consider the following:

- (a) permits, whether purchased or received freely, and the precedent for them being recognised as assets;
- (b) the possible classification of any such assets as intangible or financial;
- (c) the recognition and measurement of liabilities for carbon tax and the expensing or capitalisation of the tax; and
- (d) the possible accounting treatments of a carbon tax, and of both purchased and free permits, by the Government, including the nature of any Government liability in respect of funds received through sale or grant of permits.

Staff will continue to develop their paper on this topic for consideration at a future meeting.

Action: Staff

IFRS Advisory Council

Agenda Item 6

The Board had before it notes entitled *IFRS Advisory Council Meeting 10, 11 October 2011* prepared by Judith Downes, IFRS Advisory Council member (confidential agenda paper 6.1, tabled).

The Board received a report from Judith Downes on proceedings at the IFRS Advisory Council meeting held on 10-11 October 2011. Proceedings included consideration of a review by the IFRS Trustees of the IFRS Interpretations Committee and the proposed approach of the Due Process Oversight Committee, the effectiveness of the Council's communications, IFRS Branding, and the IASB's Conceptual Framework, Revenue Recognition and Insurance Contracts projects.



Service Performance Reporting

Agenda Item 7

The Board had before it:

- (a) a memorandum from Mischa Ginns and Lydia Kilcullen dated 11 October 2011 re: Service Performance Reporting (agenda paper 7.1); and
- (b) a Staff Paper – *Factors relevant to the future direction of the AASB's Service Performance Reporting project* (agenda paper 7.2).

The Board considered whether, and if so how, to progress its Service Performance Reporting project, particularly in light of the recent establishment of the Australian Charities and Not-for-profits Commission (ACNC), constituent feedback received on the project work to date and developments in relevant IPSASB and IASB projects.

The Board decided to continue to progress the project while seeking to work with the ACNC when appropriate, and continuing to monitor IPSASB and IASB developments.

The project will consider ways in which to address concerns expressed by some constituents about the potential for the costs of implementing any reporting requirements that might arise from the project to exceed the benefits to users of not-for-profit (NFP) private sector reporting entities' general purpose financial statements.

The Board noted the recent issuance of the IPSASB Consultation Paper *Reporting Service Performance Information*, with a comment deadline of 15 April 2012. The Board decided to notify readers of the issuance of the IPSASB Consultation Paper on its website and provide a link to the place on the IFAC's website where the Consultation Paper is located. The AASB also decided that it would request that if Australian constituents wish to respond to the IPSASB's request for comment, they also send the AASB a copy of their comments to assist the AASB in developing its comments.

The AASB requested staff to prepare an analysis of the issues in the IPSASB Consultation Paper for it to consider at its December 2011 meeting, in order to decide whether it wishes to respond to the IPSASB's request for comment and, if so, the nature of the issues it wishes to respond on.

Action: Staff

Leases

Agenda Item 8

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 11 October 2011 re: Leases – project update (agenda paper 8.1); and
- (b) tentative decisions made by the IASB and FASB on the *Leases* project – October 2011 (agenda paper 8.2, tabled).



The Board received an update on the tentative decisions made by the IASB and the FASB in their September 2011 and October 2011 meetings on the Leases project. The Board decided none of those decisions gave it cause to write to the IASB expressing concerns at this stage, particularly given the IASB's decision to re-expose the Leases proposals in Q1 2012. However, the Board requested that staff raise concerns with IASB staff relating to the lessor model, for consideration in finalising the IASB's revised ED.

Action: Staff

Revenue from Contracts with Customers

Agenda Item 9

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 23 August 2011 re: Revenue Recognition – project update (agenda paper 6.1); and
- (b) an additional memorandum from Nikole Gyles also dated 23 August 2011 re: Revenue Recognition – draft project plan (agenda paper 6.2).

The Board received an update on the tentative decisions made by the IASB and the FASB in their October 2011 meeting on the Revenue Recognition project. The Board decided none of those decisions gave it cause to express concerns to the IASB at this stage, particularly given the IASB's decision to re-expose the Revenue proposals in Q4 2011.

Action: Staff

Financial Instruments

Agenda Item 10

Offsetting Financial Assets and Financial Liabilities

The Board had before it a memorandum *Offsetting Financial Assets and Financial Liabilities - project update* from Christina Ng dated 11 October 2011 (agenda paper 10.1).

The Board received an update on the tentative decisions made by the IASB and the FASB in their October 2011 meeting on the Offsetting Financial Assets and Financial Liabilities project. The IASB tentatively decided to retain its existing requirements for set-off and clarify two issues relating to the terms 'currently' and 'simultaneous settlement', which are current wording in IAS 32 *Financial Instruments: Presentation* that have resulted in divergent application. The Board decided none of those decisions gave it cause to express concerns to the IASB. The Board noted the IASB aims to publish its Amendments to IAS 32 by December 2011.

Financial Instruments: Impairment

The Board had before it:

- (a) a memorandum from Christina Ng dated 11 October 2011 (agenda paper 10.2); and
- (b) presentation slides relating to the IASB Financial Instruments Impairment project (agenda



paper 10.2.1, tabled).

The Board received an update on the tentative decisions made by the IASB and the FASB relating to classifying loans for the purposes of assessing impairment, that is, the proposed 'expected but not reported' loss approach that has three 'buckets'. The Board noted the IASB's tentative decision to:

- (a) pursue a model in which the overall objective is to reflect the deterioration in the credit quality of financial assets. It is expected that, for the purposes of assessing impairment, all financial assets regardless of credit quality at origination or acquisition are classified in 'bucket 1' at initial recognition;
- (b) develop a principle and indicators for when it becomes appropriate to recognise:
 - (i) 12 or 24 months of expected losses for 'bucket 1' financial assets; and
 - (ii) lifetime expected losses for 'bucket 2' financial assets; and
- (c) focus on robust disclosures to support the principle-based 'expected but not reported' impairment model and to ensure comparability between entities.

The Board decided none of those recent decisions gave it cause to express concerns to the IASB at this stage.

The AASB will continue to monitor the IASB's work and plans to raise a number of issues regarding impairment at the Asian-Oceanian Standard-Setters Group (AOSSG) meeting in Melbourne in November 2011 in its role as leader of the AOSSG's Financial Instruments Working Group.

Action: Staff

Financial Instruments: Hedge Accounting

Agenda Item 10.3

The Board had before it a memorandum from Sue Lightfoot and Huy Pham dated 11 October 2011 providing a summary of the outcomes to date of the IASB's project to replace the hedge accounting principles in IAS 39 *Financial Instruments: Recognition and Measurement* (agenda paper 10.3).

The Board received an update on the IASB's deliberation of issues identified by constituents in respect of ED/2010/13 *Hedge Accounting* (which was incorporated into AASB ED 208, now closed for comment).

Issues considered include:

- (a) the disclosure requirements for entities that apply 'dynamic hedging strategies' (frequently discontinuing and restarting hedging relationships for constantly evolving exposures);
- (b) transition requirements that would allow retrospective application of the new hedging requirements in some circumstances and practical accommodations at the time of transition; and
- (c) the proposal to use the elective FVTPL method for accounting for credit exposures that are hedged using credit derivatives.

The Board decided none of the recently discussed issues gave it cause to write to the IASB expressing concerns at this stage.



The Board noted that the IASB has completed its redeliberations and is in the process of preparing the final draft of the new hedge accounting requirements, which will be made available on the IASB website for a period of 90 days.

Insurance Contracts

Agenda Item 11

The Board had before it:

- a) a memorandum from Angus Thomson, Sue Lightfoot and Lisa Panetta dated 11 October 2011 re: Insurance Contracts and Tier 2 Proposals (agenda paper 11.1); and
- b) Submissions 1 and 2 on the *Tier 2 Supplement to ED 201 'Insurance Contracts'*, being a comment letter from PricewaterhouseCoopers dated 28 September 2011 and a comment letter from Grant Thornton Australia Limited dated 30 September 2011 (agenda paper 11.2).

The Board noted that the exposure period had expired for the *Tier 2 Supplement to ED 201 'Insurance Contracts'*. The Supplement had sought comments from those who might disagree with the Board's view that entities with material insurance contracts that prepare general purpose financial statements would all have public accountability and therefore need to apply Tier 1 requirements. The two submissions received supported the Board's view.

The Board decided there is no need to create Tier 2 general purpose financial reporting requirements in respect of accounting for insurance contracts.

The Board also received an a verbal update from Angus Thomson and Sue Lightfoot on recent developments on the IASB's Insurance Contracts project, including discussions at the October 2011 meeting of the IASB's Insurance Working Group, which focused largely on the potential presentation of certain items in other comprehensive income.

Superannuation

Agenda Item 12

The Board received a verbal update on project progress from Angus Thomson.

The Board noted that staff are well advanced in redrafting a revised ED on financial reporting by superannuation entities based on comments from the AASB's superannuation subcommittee, and that staff soon expect to send a pre-ballot draft to members for comment out of session. Subject to feedback received from members, the finalised revised ED will be issued later this year with a public comment period of at least four months from the date of issue.

Not-for-Profit Entities within the General Government Sector

Agenda Item 13

The Board had before it:



- (a) a memorandum from Shu In Oei dated 11 October 2011 re: Report on Sydney Roundtable for ED 212 *Not-for-Profit Entities within the General Government Sector* (agenda paper 13.1);
- (b) a staff summary of significant issues raised at Sydney Roundtable (agenda paper 13.2);
- (c) a list of Sydney ED 212 Roundtable participants (agenda paper 13.3);
- (d) a list of ED 212 related topics for Sydney Roundtable discussions (agenda paper 13.4);
- (e) a list of Melbourne ED 212 Roundtable participants who had registered as at 14 October 2011 (agenda paper 13.5);
- (f) a staff summary of significant issues raised at Melbourne Roundtable, together with updated list of attendees (agenda paper 13.6, tabled); and
- (g) a confidential staff summary of significant issues raised at Canberra meetings (agenda paper 13.7, tabled).

The Board received a high-level report from staff summarising the outcome of the events and noted that, overall, there were strong views for and strong views against the proposals in ED 212.

Participants in the Sydney Roundtable (including constituents from New South Wales, Queensland and South Australia) generally did not support the proposals, on the basis that:

- (a) they would not lead to improvements in financial reporting;
- (b) they are not necessary; and
- (c) initial and ongoing implementation costs would outweigh any benefits.

In contrast, participants in Melbourne, and constituents consulted with in Canberra, expressed general support on the basis of the usefulness of the information for users, including:

- (a) the benefit from a clear line of sight to GGS and WoG reports;
- (b) the benefit from providing an indication of the different degrees of control and accountability an entity has over transactions compared with other economic flows; and
- (c) the benefit from entities fulfilling accountability obligations through budgetary reporting.

They also argued that costs of implementation would not be prohibitive – and had undertaken a preliminary assessment of likely costs and had thought about strategies for implementing the proposals.

The Board noted participants suggested some improvements on the assumption the project proceeds. The suggestions include:

- (a) clarification, or exemption, of the requirement to measure specialised military equipment at fair value;
- (b) clarification of the principle underlying the budgetary reporting requirements and the meaning of 'budgeted financial statements' presented to parliament and the benefits of disclosure of budgetary information;



- (c) requiring GFS classifications to be presented on the face of the financial statements for controlled items, but not requiring administered items to be presented on the face of the financial statements;
- (d) clarification of the exclusion of not-for-profit entities outside the GGS from the scope of the project; and
- (e) improvement of the illustrative examples to show, at a minimum, the number of columns that would potentially be required or possible under the proposals.

The Board did not make any decisions in relation to the proposals, pending consideration of a collation of verbal and written comments to be prepared by staff after the comment period for ED 212 ends on 31 October 2011. Given the nature of the proposals, the Board intends to consider ED 212 on an issue-by-issue basis over several meetings.

Action: Staff

Extending Related Party Disclosures to the Not-for-Profit Public Sector

Agenda Item 14

The Board received a high-level staff summary of the views expressed by constituents who attended the recent Roundtables, and other discussions with staff and/or the Chairman, on the proposals in ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*. The Roundtables were held in Melbourne and Sydney. Other discussions with staff and/or the Chairman were held in Canberra and Perth.

The Board noted the general support expressed for extending the scope of AASB 124 *Related Party Disclosures*. Participants also raised a range of issues, including the identification of key management personnel and remuneration and transaction disclosures in relation to government Ministers. The potential difficulty of retrospective application on initial adoption by not-for-profit public sector entities was also raised, which could be mitigated by a suitable transition period.

No decisions were made, pending consideration of all comments to be received on ED 214. The ED remains open for comment until 31 January 2012.

Action: Staff

IASB Agenda Consultation 2011

Agenda Item 15

The Board received a verbal update from Angus Thomson regarding the IASB's Consultation Paper *Request for Views – Agenda Consultation 2011*.

The Board noted progress in developing its submission on this matter and that the submission is expected to be finalised at the December AASB meeting.



Control in the NFP Sector

Agenda Item 16

The Board had before it a memorandum from Lisa Panetta and Clark Anstis dated 11 October 2011 (agenda paper 16.1).

The Board received a progress report on its Control in the Not-for-Profit (NFP) Public and Private Sector project. The Board noted that:

- (a) Bryan Howieson has continued his research into the NFP private sector under Part 2 of Phase 1 of the project. He has conducted several interviews with NFP sector constituents and will carry out further interviews. To date, no new issues have been identified in the NFP private sector in addition to those identified during the public sector research in Part 1 of Phase 1 of the project; and
- (b) the staff are nearing completion of a paragraph-by-paragraph analysis of AASB 10 *Consolidated Financial Statements*, the objective of which is to identify Aus paragraphs that might be added to AASB 10 through an Exposure Draft process. The Board noted that the analysis will be developed with the Board's project sub-committee.

Action:

Staff

Board sub-committee

Emerging Issues

Agenda Item 17

The Board did not identify any emerging issues other than those noted below.

IFRS Interpretations Committee

The Board had before it the November 2011 IFRS Interpretations Committee alert for the Committee's meeting to be held on 3-4 November 2011 (agenda paper 3.12, tabled) and copies of *IFRIC Update* September 2011.

The Board received a verbal report from Robert Keys and noted recent correspondence from the Board and the staff to the IFRS Interpretations Committee on draft agenda rejection statements relating to issues arising from IFRS 3 *Business Combinations* and IAS 12 *Income Taxes*; and on the Committee's current projects relating to IFRS 10 *Consolidated Financial Statements* and IFRIC 15 *Agreements for the Construction of Real Estate*.

The Board also noted the recent ratification by the IASB of IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Board agreed that a ballot draft of an Australian version should be submitted in the near future for its consideration and out of session vote.

Action:

Staff

Board members



Joint Ore Reserves Committee (JORC) Code/ASX Oil & Gas disclosures

The Board briefly discussed separate current proposals to amend the ASX listing rules regarding Oil & Gas disclosures and the JORC code regarding mineral reserves and resources. The Board noted that there is considerable overlap between the proposals, but that they are not directly related to financial reporting and the Board's expertise, and decided not to comment.

Integrated Reporting

The Board had before it a Discussion Paper *Towards Integrated Reporting - Communicating Value in the 21st Century* issued by the International Integrated Reporting Committee (IIRC) (agenda paper 3.8, tabled). Mischa Ginns spoke to the paper.

The Board decided to make a high-level submission on the Discussion Paper. The submission will express a view that the development of an integrated reporting framework should complement, rather than replace, financial reporting and suggest that, as a starting point, the IIRC should develop a Conceptual Framework and an explicit definition of integrated reporting. The Board established a sub-committee consisting of Ian McPhee, Brett Rix and Kevin Stevenson.

Action:	Staff
	Board sub-committee

Review

Agenda Item 18

The Board did not have any substantive comments, other than those reflected in relevant items above.

Close of Meeting

The Chairman closed the meeting at 5.00 p.m. on 26 October 2011.

Approval

Signed by the Chairman as a correct record
this seventh day of December 2011