Minutes

Subject:	Minutes of the 116th meeting of the AASB
Venue:	Ken Spencer Room, AASB offices Level 7, 600 Bourke St, Melbourne
Time(s):	Thursday 28 April 2011 from 9.00 a.m. to 4.35 p.m.

All agenda items except part of item 13 and item 14 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Kris Peach (Deputy Chair) Glenn Appleyard Victor Clarke Anna Crawford Sue Highland John O'Grady Joanna Perry Brett Rix Robert Williams
Apologies	Ian McPhee (Deputy Chair) Jayne Godfrey Roger Sexton
In Attendance:	
Staff	Clark Anstis (in part) Natalie Batsakis (in part) Mischa Ginns (in part) Nikole Gyles (in part) Kala Kandiah (in part) Robert Keys Ting Lin (in part) Christina Ng (in part) Lisa Panetta Jim Paul (in part) Angus Thomson Raymond Yu (in part)
	Staff from the NZ FRSB dialled into the meeting for Agenda items 3, 4, 9 and 10.
Other	Tim Youngberry (IPSASB member) (9am – 3.30pm) Warren McGregor (IASB Member) (12pm – 2.30pm)

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 Jayne Godfrey, Ian McPhee and Roger Sexton.

Minutes

The Board considered the draft minutes of meeting 115 (agenda paper 2.1), held on 16-17 March 2011, and approved them subject to an amendment to agenda item J10 (IPSASB Conceptual Framework: Phase 2) - the deletion of the last two sentences of paragraph (d) as quoted below:

> "Obligations to forgo future resources should not be identified as examples of liabilities. Obligations to make an outflow of value only give rise to liabilities when that outflow of value is also an outflow of resources"

and an amendment to the Chairman's Report - the acknowledgement of the appointment of Lynn Wood as Chair of the FRC.

Chairman's Report

Due Process

The Chairman commented on the IASB's due process to date relating to the estimated 12 new and revised standards due to be released this year and noted that the AASB should consider whether IASB's due process is adequate to satisfy the AASB's due process and Regulatory Impact Statement (RIS) requirements. The Chairman addressed the possible need for re-exposure on at least some of the topics, perhaps in the form of a fatal flaw exposure of the final standards before AASB approval, making it clear that (a) it is the Board's intention to approve the standard unless very clear fatal flaws are identified; and (b) the Board requires comments of respondents on issues that will enable the Board to complete any RIS. Board members acknowledged the issue, noting the need to consider the AASB's criteria for re-exposure. The Board will decide whether further due process is warranted in light of any further due process that might be undertaken by the IASB. It was noted that the IASB may be considering further exposure of some topics.

Australian/New Zealand Harmonisation

The Chairman advised the Board that TTAASAG, FRC and the NZ ASRB have reacted positively to considering further how best to achieve mutual recognition of Tier 1 for-profit entity reporting between Australia and NZ (and the prospect of Tier 2 for-profit entity mutual recognition). The benefits of such recognition will depend on legislation and other regulators rationalising the requirements for subsidiaries, branches and sub-consolidations. The Chairman noted that the Commonwealth Treasury and the NZ Ministry of Economic Development have been asked to explore changes needed to legislation that would facilitate the benefits of mutual recognition.

Carbon Tax Exposure

The Chairman commented on the impending carbon tax legislation that could have a material impact on reporting entities and the potential implications for accounting, including, disclosure requirements. The Board decided to consider at a future meeting the extent to which current Accounting Standards might be expected to affect any disclosures that an entity might make in relation to significant impending legislation, such as exposure to carbon tax. It also asked the staff to prepare a paper drawing together the relevant existing requirements in Standards.

Financial Reporting Council

The Chairman provided the Board with an update on the FRC. The Chairman advised that the FRC will now be working in five task forces with the objective of raising issues for consideration. Three of the task forces are particularly relevant to the AASB including integrated reporting, reducing the complexity/cost of reporting and monitoring developments in relation to IPSASB. The other two task forces are education of Board members and audit quality/independence.

Not-for-Profit Sector (including the Public Sector)

The Chairman advised the Board that staff will be conducting NFP public and private sector symposiums to provide the NFP sector with an update on current AASB NFP sector related projects. It is anticipated the symposiums will take place in the second half of the year in Melbourne and Sydney.

ASIC Consultation Paper CP 150 Disclosing financial information other than in accordance with accounting standards

The Chairman advised the Board that the FRC is making a submission to ASIC in response to CP 150. The Board agreed the AASB should also make a submission. Three Board members (Anna Crawford, Brett Rix and Victor Clarke) agreed to be part of a sub-committee to help prepare the submission.

Communications Report

The Chairman updated the Board on the recent National Standard Setters (NSS) meeting he attended with the Technical Director. The Chairman advised that Australia has a positive profile in that forum, being visible on three topics: a NSS Framework, AOSSG and a conceptual framework approach to presentation and disclosure.

The Chairman also updated the Board on the recent NSS-4 meeting (comprising four NSSs with an interest in not-for-profit public sector issues – being Canada, New Zealand, United Kingdom and Australia). He had chaired a recent meeting at which the roles of the group (thought leadership) and its membership were discussed.

Fair Value Measurement

Agenda Item 3

The Board had before it:

(a) a memorandum from Jim Paul and Raymond Yu dated 13 April 2011 (Agenda Paper 3.1);

(b) a near-final draft of IFRS 13 *Fair Value Measurement* [confidential] (Agenda Paper 3.2);

(c) a staff paper entitled Potential Implications of Draft IFRS 13 *Fair Value Measurement* for IAS 41 *Agriculture* (Agenda Paper 3.3);

(d) a memorandum from Jim Paul and Joanne Scott dated 13 April 2011 (Agenda Paper 3.4);

(e) a staff paper entitled Key Issues Arising from IVSC Exposure Draft *Proposed Technical Information Paper 2 (TIP 2) 'Depreciated Replacement Cost'* (Agenda Paper 3.5); and

(f) IVSC Exposure Draft TIP 2 *Depreciated Replacement Cost* (Agenda Paper 3.7).

IFRS on Fair Value Measurement

The Board received a status report on the IASB's progress toward issuing an IFRS on Fair Value Measurement and on AASB staff's work on developing proposed Tier 2 disclosure requirements based on that expected IFRS. The IFRS is expected to be issued shortly as IFRS 13 *Fair Value Measurement*.

The Board noted that, in monitoring the IASB's work, staff identified a fair value-related issue in AASB 141 *Agriculture* that does not arise from the expected IFRS 13. The Board decided to write to the IASB to recommend an improvement to paragraph 51 of IAS 41 *Agriculture*. Paragraph 51 encourages separate disclosure of the components of the change in the fair value less costs to sell of biological assets due to physical changes and due to price changes. The Board will recommend that this disclosure should only be encouraged in relation to biological assets with fair value determined through current volume/price multiples, and not for fair value estimates based on the present value of future cash flows.

The Board decided that the letter should be finalised out-of-session for approval by the Chairman.

Action: Staff
Chairman

IVSC Exposure Draft on Depreciated Replacement Cost

The Board considered key issues regarding the consistency of International Valuation Standards Committee (IVSC) Exposure Draft 'Proposed Technical Information Paper 2 (TIP 2) *Depreciated Replacement Cost*' with the IASB's guidance on depreciated replacement cost (DRC) as an estimate of fair value, which is expected to be included in the forthcoming IFRS 13. The Board decided to include comments along the following lines in its submission on ED TIP 2:

(a) the ED is a move in the right direction, but the Board queries whether it would provide sufficient guidance to help ensure valuations conform to IFRS 13 when prepared to apply the cost approach to measure fair value under that Standard;

(b) the Board would prefer that TIP 2 is limited to guidance for the purpose of applying the cost approach to measure fair value under IFRS 13, and cross-references its guidance to the specific requirements in that Standard. However, if the IVSC confirms its proposal that TIP 2 provides guidance on measuring DRC for other purposes, TIP 2 should include an explicit statement on which guidance therein is consistent with IFRS 13; and

(c) the ED's possible implication that, in determining the DRC of assets within a group of assets, economic obsolescence should normally be allocated to identifiable intangible assets before tangible assets is inconsistent with the approach to allocating impairment losses under IAS 36 *Impairment of Assets*. In this regard, the Board decided to note it would agree with the ED if the reference to 'identifiable intangible assets' in ED TIP 2 was instead a reference to goodwill.

Board members were asked to provide any other matters they think should be included in the submission to staff out-of-session.

The Board decided not to comment on the following issues in its submission on ED TIP 2:

(a) the non-mandatory status of proposed TIP 2; and

(b) the proposal that, in measuring the interest component of the replacement cost (as a fair value estimate) of self-constructed assets, the amount of interest should be based on the cost of debt and other factors for typical market participants. However, the submission should express support for the inclusion of interest in the determination of DRC; and

(c) non-interest finance costs.

The Board decided that a draft submission on ED TIP 2 consistent with the decisions above should be considered by a Subcommittee before approval by the Chairman. The Subcommittee members are John O'Grady, Kris Peach and Brett Rix.

Action:	Staff Board members Subcommittee and Chairman

Australia–New Zealand Convergence – True and Fair View

Agenda Item 4

The Board had before it:

(a) a memorandum from Angus Thomson dated 11 April 2011 (agenda item 4.1); and

(b) an extract of the draft AASB 2011-X *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] (agenda paper 4.2).

The Board noted that, as part of the project to converge Australian and New Zealand Standards, it has decided to:

(a) include paragraphs 19 to 22 of IAS 1 *Presentation of Financial Statements* (which deal with extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective in the *Framework*) in AASB 101 *Presentation of Financial Statements*; and

(b) also include in AASB 101 an Aus paragraph (Aus19.1) that prohibits the following entities from using paragraph 19:

(i) entities reporting under the Corporations Act (on the understanding that AASB's Standards are part of the regulatory framework for entities reporting under the Corporations Act);

(ii) not-for-profit entities, including governments; and

(iii) entities applying Tier 2 requirements.

The Board discussed whether the prohibition in (b)(ii) should be conditional on whether the entity makes an unreserved statement of compliance with IFRSs, because there are some isolated instances where not-for-profit entities are both able to be, and are interested in being, IFRS compliant.

The Board decided not to make the prohibition conditional, primarily on the basis that:

(a) there seem to be few such entities; and

(b) the situations in which IFRS compliance would be at stake are limited to 'extremely rare circumstances'.

The Board noted that members will shortly be asked to vote on three Standards representing the completion of phase 1 of the Australia-New Zealand Convergence project, which makes the Tier 1 Standards applying to for-profit entities virtually the same in both jurisdictions. Those Standards are a separate Standard on additional Australian disclosures and two Amending Standards dealing with the deletion and relocation of requirements and the amendments connected with Reduced Disclosure Requirements.

Action: Staff
Board members

GAAP/GFS Harmonisation: Post-Implementation Review of AASB 1049

Agenda Item 5

The Board had before it:

(a) a memorandum from Ting Lin and Robert Keys dated 14 April 2011 (agenda paper 5.1);

(b) submissions on Part 1 of ED 211 *Proposed Amendments to AASB 1049* (agenda paper 5.2); and

(c) an extract from ED 211 and accompanying Basis for Conclusions (agenda paper 5.3).

The Board considered each of the issues raised by respondents to the proposals in Part 1 of ED 211 (noted in agenda paper 5.1) together with the staff views and decided:

(a) in relation to Issue 1 *definition of the ABS GFS Manual*, after noting the progress the ABS has made on its website in explicitly identifying the documents that comprise the ABS GFS Manual, consistent with the AASB's approach, to amend the definition along the following lines (marked-up from the ED 211 proposals):

> ~~The~~ Australian Bureau of Statistics (ABS) publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and ~~associated updates, and guidance notes~~ *Amendments to Australian System of Government Finance Statistics, 2005 (ABS Catalogue No. 5514.0)* ~~issued by the ABS, and~~ published on the ABS website.

The Board decided that it would not be appropriate to hyperlink to the page on the ABS website where each document can be located, due to the risk that, over time, the hyperlink might become out-dated.

(b) in relation to the part of Issue 2 relating to identification on the ABS website of documents that form part of the ABS GFS Manual, consistent with the staff view, the revised definition of the ABS GFS Manual noted in (a) immediately above adequately addresses the issues raised by respondents. In relation to the part of Issue 2 relating to identification of the effective dates of amendments to the ABS GFS Manual, the Board decided that the date on which amendments to the ABS GFS Manual become effect should, for the purposes of AASB 1049, be the publication date if no effective date is specified by the ABS;

(c) in relation to Issue 3 *relief from adopting the latest version of the ABS GFS Manual*, consistent with the staff view, the proposed paragraph 13B of AASB 1049 (within paragraph 10 of ED 211) should be amended to read along the following lines (marked-up from ED 211):

> **For the purpose of this Standard, a government shall apply ~~a~~ the version of the ABS GFS Manual ~~that was~~ effective ~~on or after~~ at the beginning of the previous annual reporting period or any version effective at a later date, as the basis for GFS information included in the financial statements under this Standard. The date on which amendments to the ABS GFS Manual become effective is, for the purposes of this Standard, the publication date if no effective date is specified by the ABS.**

(d) in relation to Issue 4 *other issues*, consistent with the staff view, subject to the decisions in (a)-(c) immediately above, the Part 1 proposals and related Basis for Conclusions paragraphs from ED 211 should be incorporated into a ballot draft of an Amending Standard and distributed to Board members for out-of-session voting.

Action: Staff
Board members

Revenue from Contracts with Customers

Agenda Item 6

The Board had before it:

(a) a memorandum from Kala Kandiah dated 14 April 2011 (agenda paper 6.1); and

(b) summary of significant IASB tentative decisions made in relation to the IASB/FASB Revenue recognition project (agenda paper 6.2).

The Board received an update on significant tentative decisions made by the IASB and the FASB in their joint project to develop a Standard on Revenue from Contracts with Customers and expressed concerns about some of the IASB's tentative decisions, including:

(a) the presentation of an impairment loss on contracts with customers as contra revenue in the statement of comprehensive income. The Board noted this IASB tentative decision is inconsistent with the IASB's proposals on accounting for interest income and the impairment of loan contract receivables. The Board considered any impairment arising on contracts with customers should be recognised as an expense related to contract assets, i.e. receivables, and presented separately as an expense in the Statement of Comprehensive Income rather than as contra revenue;

(b) developing separate revenue recognition models for goods and for services (the Board also expressed concerns about the appropriateness of those models). The Board noted that this IASB tentative decision seems inconsistent with the 'single revenue recognition principle' objective of the project. The Board discussed the separate revenue recognition guidance for transfers of goods and transfers of services and expressed concern that for both goods and services, the application of the proposals may result in revenue being recognised without the entity having a right to payment for performance to date. The Board also discussed the term 'alternative use to entity' used in the proposed guidance for recognition of revenue on transfers of services and considered that the term should be clarified in the final Standard on Revenue to help prevent divergent practice in interpreting the term; and

(c) prescribe an approach to and a measurement basis for uncertain consideration from customers that is inconsistent with other Standards and tentative decisions made in other projects. The Board noted this tentative decision would require an entity to determine the transaction price of a contract with customer with variable or uncertain consideration using either a probability-weighted approach or a most likely amount approach, whichever is most predictive of the amount of consideration to which the entity will be entitled. The tentative decision would also require revenue to be recognised only when the transaction price is ‘reasonably assured’ of being received. The Board would prefer the IASB to have a consistent approach in dealing with similar items across all Standards and projects.

As a separate issue, the Board considered the IASB should be explicit about the IFRS that would apply to contract assets such as receivables. If the intention of the IASB is that such assets should be within the scope of the Revenue Standard and not the Financial Instruments Standards, the IASB should make this clear in the Revenue Standard.

The Board decided to write to the IASB to express the above concerns, and that the staff draft letter should be provided directly to the Chairman for approval.

Action: Staff
Chairman

RDR – Deferred Tax and Severe Hyperinflation

Agenda Item 7

The Board had before it:

(a) a memorandum from Clark Anstis dated 12 April 2011 (agenda paper 7.1);

(b) submissions on Tier 2 Supplement to EDs 204 and 206 (agenda paper 7.2);

(c) Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets* (Nov. 2010) (agenda paper 7.3); and

(d) Tier 2 Supplement to ED 206 *Severe Hyperinflation* (Dec. 2010) (agenda paper 7.4).

The Board considered the submissions received on the Tier 2 Supplements and decided not to make any amendments to reduced disclosure requirements (RDR) based on these proposals.

AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* made the amendments to AASB 112 *Income Taxes* arising out of the ED 204 process. Since AASB 2010-8 did not add or amend any disclosure requirements, there were no new disclosures for which reduced disclosure requirements could now be considered.

The disclosures that had been proposed in ED 206 were included in AASB 1 *First-time Adoption of Australian Accounting Standards* through AASB 2010-9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*. The Board confirmed there should not be any reduction in those disclosures for Tier 2 entities, as had been proposed in the Tier 2 Supplement to ED 206.

IPSASB Update

Agenda Item 8

The Board had before it:

(a) a memorandum from Clark Anstis dated 12 April 2011 (agenda paper 8.1); and

(b) a report on the IPSASB Meeting, March 2011 (agenda paper 8.2).

The Board received an update on the March 2011 meeting of the IPSASB from Tim Youngberry, the Australian member of IPSASB, and Clark Anstis.

In particular, the Board noted the IPSASB is now undertaking preliminary consultation on a proposed Consultation Paper concerning its governance and oversight arrangements, with the final Consultation Paper expected to be released for public comment later in the year. Members commented that developments in the IASB's governance and oversight arrangements could be considered in assessing the IPSASB's proposals.

The IPSASB also discussed at its March meeting issues concerning presentation and disclosure (phase 4 of the Conceptual Framework project), accounting for service concession arrangements by grantors (a final Standard is now being developed), new projects that might be added to its work program, service performance reporting, entity combinations, narrative reporting (management commentary), and improvements to IPSASB Standards.

Members discussed a number of these issues but no decisions were made. Members noted in particular that:

(a) the IPSASB intends to consider the IASB's changes to financial instrument accounting standards since 2008 once the IASB has completed its development of IFRS 9 *Financial Instruments*;

(b) the IPSASB is considering the submissions received on its Exposure Draft ED 43 *Service Concession Arrangements: Grantor* (February 2010) and discussing the recognition of revenue by a grantor over the term of an arrangement, by analogy to royalty revenue under IPSAS 9 *Revenue from Exchange Transactions*; and

(c) the progress the IPSASB is making on its service performance reporting project might have implications for the AASB's own work on service performance reporting and further noted that AASB staff should continue to monitor the IPSASB project and endeavour to avoid duplication of work.

IPSASB Conceptual Framework

The Board had before it:

(a) a memorandum from Jim Paul and Joanne Scott dated 13 April 2011 (agenda paper 9.1);

(b) draft comments to the IPSASB on Key Issues in its Conceptual Framework Phase 1 ED (agenda paper 9.2);

(c) a draft submission on IPSASB Conceptual Framework Consultation Paper *Elements and Recognition in Financial Statements* (agenda paper 9.3); and

(d) draft comments to the IPSASB on Key Issues in its Conceptual Framework Consultation Paper *Measurement of Assets and Liabilities in Financial Statements* (agenda paper 9.4).

After confirming its views formed on the key issues considered at its March 2011 meeting, the Board made the following decisions on additional key issues arising from the following IPSASB Conceptual Framework consultation documents:

(a) IPSASB Conceptual Framework Exposure Draft *1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*

The Board decided to include in its submission comments that the IPSASB Framework should:

(i) include guidance for identifying the characteristics of entities:

(A) with users dependent on their general purpose financial reports for making resource allocation or other decisions; and, therefore,

(B) that should, in concept, prepare general purpose financial reports;

In that regard, Board members noted, in the public sector, there is probably a greater need for criteria to identify which entities should, in concept, be required to prepare GPFRs. This is because it is less clear than in the private sector which entities that are components of entities preparing GPFRs should also prepare GPFRs. In that sense, the focus of the guidance would, in effect, be on identifying which public sector entities need not prepare GPFRs.

(ii) acknowledge that its (proposed) boundaries of a group reporting entity are in principle consistent with the notion of control adopted by standard setters in various jurisdictions; and

(iii) clarify in paragraph 1.8 that, whilst GPFRs of government business enterprises (GBEs) as separate reporting entities are not within the scope of the IPSASB Conceptual Framework, information about GBEs included in the GPFRs of governments and other NFP public sector entities is within the scope of the IPSASB Conceptual Framework.

The Board decided to agree with the IPSASB's proposal that 'exposure [of a parent entity] to a financial burden or loss' is a sufficient reason for a 'directed entity' to form part of that parent's group reporting entity. The Board's key reason for this decision is its conclusion that it would be possible for a parent entity to be exposed to a financial burden/loss from a directed entity without having the capacity to reduce those losses.

(b) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

The Board decided to include the following comments in its submission:

(i) it agrees that present obligations to forgo future resources are liabilities;

(ii) constructive obligations should be included in the concept of a liability, although they might not meet the criteria for recognition as liabilities (see (vi)(A) below). The Board noted that under Government Finance Statistics, constructive obligations are not recognised as liabilities;

(iii) assessments of whether particular obligations meet the definition of a liability should be based on existing legislation;

(iv) it would prefer that net assets/equity be characterised as a residual interest;

(v) transactions with residual interest holders need not be identified as separate elements; however, it is important to define them because they are referred to in the existing definitions of revenues and expenses; and

(vi) recognition criteria should be:

(A) separate from definitions of the elements of financial statements; and

(B) neutral, both in requiring a neutral judgement of whether an element exists at the reporting date and in specifying the same recognition threshold for all assets and liabilities.

(c) IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements*

The Board decided to include the following comments in its submission:

(i) the extent of discussion of deprival value gives the impression of bias in the Consultation Paper;

(ii) the discussion of the treatment of an entity's own credit risk seems inconsistent. This is because paragraph A3 says the treatment should depend on the measurement basis adopted (the Board agrees with that comment) but the subsequent discussion in Appendix A implies the treatment of an entity's own credit risk is independent of the measurement basis adopted. The Board decided to provide one or more examples to illustrate its concern;

(iii) consistent with the Board's view formed at its March 2011 meeting, the concept of capital chosen should determine how to measure non-financial assets with alternative uses; and

(iv) the IPSASB's Exposure Draft on this topic should assume that cost and current value are materially different, because the purpose of the Measurement chapter should be to provide conceptual guidance for choosing between different measurement bases or attributes. Emphasising that cost and current value may in some cases be materially the same detracts from the importance of identifying the conceptually ideal measurement basis (or bases) or attribute (or attributes).

The IPSASB requests comment on all three documents by 15 June 2011. At its next meeting, the Board will consider any constituent comments received before finalising its submissions.

The Board decided that draft submissions on the three IPSASB documents, consistent with the decisions above, should be considered by its Conceptual Framework Subcommittee and then circulated to the Board out-of-session for approval. The Subcommittee comprises continuing members Kris Peach, Brett Rix and Kevin Stevenson, and Mark Jenkin and Robert Williams agreed to join the Subcommittee.

Action: Staff
Subcommittee

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

Agenda Item 10

The Board had before it a memorandum from the project team dated 12 April 2011 (agenda paper 10.1).

Staff provided a progress report on developments in the IASB's projects on consolidation and joint arrangements. The Board noted that:

(a) late in April 2011, the IASB released near final drafts of all five standards, being IFRS 10 Consolidated Financial Statements, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*;

(b) given the five Standards are interrelated, it is likely that early adoption by not-for-profit entities of IFRS 11, IFRS 12 and the revised IAS 27 and IAS 28 should be prohibited, as was previously decided by the AASB in relation to IFRS 10 at its 8-9 December 2010 meeting;

(c) based on the staff's preliminary review of near final draft IFRS 12, the AASB will need to consider the additional disclosure requirements not previously exposed (including information about non-controlling interests and consolidated structured entities). The AASB asked staff to provide a report to the Board at its next meeting on the IASB's rationale for the additional disclosures and its reasons for not re-exposing the requirements. The report should also include a review of the other four imminent Standards and how their expected requirements differ from what was previously exposed and any implications this might have for the AASB's due process. The AASB also noted that it will need to consider IFRS 12 in relation to the potential for reduced disclosure requirements for Tier 2 entities; and

(d) based on the IASB work plan timetable (dated 21 April 2011), the IASB plans to issue an Investment Entities exposure draft in May or June 2011; and

The staff provided a progress report on the Control in the NFP Public and Private Sectors project. The Board noted that staff are continuing work on:

(a) a report addressing issues relating to applying the concept of control in the NFP public sector and a literature review of, and other research into, issues relating to applying control in the NFP private sector; and

(b) a paragraph-by-paragraph review of the IASB staff draft of IFRS 10 to identify the potential need for domestic NFP-specific modifications, such as an Aus paragraph clarifying the meaning of the term 'returns' expected to be used in the amended definition of control. Other potential Aus paragraphs include clarification of control through the power of veto and power of delegation and guidance concerning protective rights.

Action: Staff

Financial Instruments – Hedging

Agenda Item 11

The Board had before it:

(a) a memorandum from Natalie Batsakis dated 13 April 2011 providing a summary of the outcomes to date of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (agenda paper 11.1); and

(b) presentation slides relating to outcomes of the IASB's deliberation of issues raised by constituents in response to ED/2010/13 and consideration of portfolio hedge accounting issues (tabled agenda paper 11.2).

The Board received an update on tentative decisions made to-date by the IASB as a result of its deliberation of issues identified from constituent feedback on ED/2010/13 *Hedge Accounting*, including:

(a) designation of equity investments at fair value through other comprehensive income (FVTOCI) as hedged items – the IASB tentatively decided to allow equity instruments at FVTOCI to be designated as eligible hedged items. This would not be extended to other items measured through other comprehensive income (OCI). Some IASB members wanted to redeliberate the definition of non-trading equity investments and the types of investments that are able to be measured at FVTOCI. Those members wanted to narrow the classification scope exception to be what they believe the IASB originally intended for that classification – being, those investments held for strategic purposes (as outlined in paragraph BC 5.25(c) of IFRS 9 *Financial Instruments*). The Chairman noted that Australian Listed Investment Companies classified their long-term investments at FVTOCI under current IFRS 9 requirements, which many consider appropriate for their business model, and if the IASB were to change the classification scope exception there would need to be appropriate transitional provisions. The Board agreed to write a letter to the IASB in this regard to be approved by the Chairman out-of-session:

(b) hedging risk components in sub-LIBOR instruments – the IASB tentatively decided to retain its proposal in ED/2010/13 that a portion of the hedged item cannot be greater than the total cash flows of the hedged item;

(c) eligibility of cash instruments as hedging instruments – the IASB tentatively decided to retain its proposals in ED/2010/13 that only cash instruments at fair value through profit or loss (FVTPL) can hedge risks other than foreign currency risk. Additionally, it does not matter if the instrument is classified and measured at FVTPL in accordance with IFRS 9 or is designated as such using the Fair Value Option. However, the IASB will clarify that financial liabilities designated at FVTPL, where part of the change in fair value is recognised in OCI, will not be eligible for designation as hedging instruments;

(d) treatment of forward points (difference between spot rate and forward rate) in foreign currency derivatives – the IASB will consider possible alternatives for the treatment of forward points at a future meeting;

(e) zero cost collars – the IASB tentatively decided to align the treatment of the time value of options and zero cost collars. The IASB staff will ask the IASB to consider at a future meeting whether the treatment of the time value of options proposed in ED/2010/13 is appropriate based on feedback received on the proposals;

(f) fair value hedge accounting – the use of OCI – the IASB tentatively decided to retain the requirements in IAS 39, which means that gains and losses from the hedging instrument and hedged item will be presented in profit or loss (rather than in OCI as proposed in ED/2010/13). In addition, they tentatively decided to require presentation of the effect of fair value hedges and cash flow hedges in one note to enhance disclosures about the impact of an entity's hedge accounting activities; and

(g) nominal components – the IASB tentatively decided to retain its proposals in ED/2010/13 that a layer component with a prepayment option whose fair value is affected by changes in the hedged risk cannot be designated as a hedged item.

The IASB is expected to continue deliberating issues raised in constituent feedback to ED/2010/13 at its meetings and re-issue IFRS 9 with final hedging requirements in the second half of 2011.

The Board also considered some preliminary issues raised by the IASB and its staff in respect of portfolio hedge accounting and the proposed timetable for the deliberation of issues. No decisions were made.

The Board noted the IASB is expected to publish its Exposure Draft on portfolio hedge accounting in the second half of 2011.

Action: Staff
Board Members

Emerging Issues

Six-month Outlook

Agenda Item 12.1

The Board had before it a Six-Month Outlook for AASB Projects (agenda item 12.1).

Although the six-month schedule in agenda paper 12.1 does not reflect the latest expected timing of IASB projects the Board noted that the schedule indicates the amount of work and range of topics to be considered by the Board, both in-session and out-of-session, over the next six months. The Board also noted the staff's objective of keeping the Board informed of issues to help facilitate the Board's decision making when it comes to considering whether to adopt an IFRS in Australia.

IPSASB ED 45 Improvements to IPSASs 2011

Agenda Item 12.2

The Board had before it a memorandum from Robert Keys dated 19 April 2011 (Agenda Paper 12.2).

The Board noted the IPSASB's proposal to amend IPSAS 17 *Property, Plant and Equipment* and IPSAS 16 *Investment Property* by removing material relating to 'exchange transactions that lack commercial substance'. The Board also noted that the IPSASB's rationale for the proposal seems to presume all 'exchange transactions that lack commercial substance' are 'non-exchange transactions', which is not necessarily the case – and there is no public sector (or not-for-profit) specific reason to make such a presumption.

The Board decided to make a submission to the IPSASB on ED 45 that expresses concern about this proposal, to be approved by the Chairman out-of-session.

Action: Staff
Chairman

Leases

Agenda Item 12.3

The Board had before it tentative decisions made by IASB/FASB on their Leases project – April 2011 (agenda paper 12.3).

The Board received an update on tentative decisions made by the IASB and the FASB in April 2011 in their joint Leases project and expressed concerns about some of the IASB's tentative decisions, including the decision to:

(a) have two models for lessee accounting for capitalised leases (i.e. finance leases and other-than-finance leases). The Board noted the IASB tentative decision seems inconsistent with the 'single approach to lease accounting' objective of the project. The Board supported having one approach for capitalised leases and considered the IASB's recent tentative decision would not result in improved information for users of financial reports when compared to IAS 17's current requirements for lessee accounting. The Board also expressed concerns about the appropriateness of those models. The Board noted that, under both models, a lessee would initially recognise a right-of-use asset and a lease liability at the present value of lease payments and subsequently measure the lease liability using the effective interest method as proposed in IASB's ED/2010/9. The Board also noted the subsequent measurement of the right-of-use asset in each model would be different. For finance leases, the amortisation of the right-of-use asset would be based on a systematic and rational method in accordance with IAS 38 *Intangible Assets*. However, for other-than-finance leases, the amortisation amount of the right-of-use asset would be the difference between the straight-line amount and the interest expense amount, such that the total expense recognised within profit or loss as a single line item (rent expense) is consistent with the current recognition of operating lease expense under IAS 17 *Leases*. The Board questioned the IASB's rationale for introducing a rule-based amortisation method for the right-of-use asset in other-than-finance-leases, which the Board considered not to have conceptual merit. The Board also considered the IASB should clarify the following issues in relation to the right-of-use asset in other-than-finance-leases in the final Standard on Leases:

  (i) whether the asset can be revalued on subsequent measurement and how the revalued amount should be amortised; and

(ii) how the asset should be tested for impairment.

(b) exclude variable lease payments (except those that are considered 'disguised' minimum lease payments) from the measurement of lease assets and liabilities. The Board considered the IASB's recent tentative decisions on variable lease payments:

(i) are inconsistent with the approach taken in other Standards and other projects and would prefer the IASB to have a consistent approach in dealing with similar items across Standards and projects; and

(ii) do not reflect the economics of lease arrangements.

The Board decided to write a letter to the IASB to express the above concerns, to be approved out-of-session by the Chairman.

Action: Staff
Chairman

Offsetting Financial Assets and Financial Liabilities

Agenda Item 12.4

The Board noted that submissions to the IASB on ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* are due today (28 April 2011).

Based on comments received from members on a draft comment letter out-of-session, staff asked the Board whether it would like to suggest that the IASB allow gross presentation even when the criteria for set off are met on the basis that gross presentation generally provides better information.

The Board decided against making the suggestion and is keen to highlight its support for the main IASB proposals to essentially retain the limited circumstances under IAS 32 (AASB 132) *Financial Instruments: Presentation* in which presentation is on a net basis.

Action: Staff

Other Business

Agenda Item 13

The Board had before it:

(a) a memorandum from Peter Batten and Robert Keys dated 13 April 2011 re AASB Work Program (agenda paper 13.1);

(b) AASB Work Program (April 2011) (agenda paper 13.1.1);

(c) Summary of AASB Work Program (agenda paper 13.1.2);

(d) A memorandum from Peter Batten dated 12 April 2011 re Interpretations Update (agenda paper 13.2.1);

(e) *Interpretations – Issues in Progres*s (12 April 2011) (agenda paper 13.2.1);

(f) The March 2011 *IFRIC Update* (agenda paper 13.2.2);

(g) A memorandum from Peter Batten dated 12 April 2011 re Updated listing of AASB sub-committee membership (agenda paper 13.3);

(h) AASB Sub-committee membership as at 4 April 2011 (agenda paper 13.3.1);

(i) letter from Lynn Wood, FRC Chairman to Kevin Stevenson, AASB Chairman, dated 24 March 2011 (agenda paper 13.4);

(j) submission on IASB Supplement to Exposure Draft ED/2009/12 *Financial Instruments: Impairment* (agenda paper 13.5); and

(k) submission to the IFRS Foundation Monitoring Board on *Review of the IFRS Foundation's Governance* (agenda paper 13.6).

The Board noted the above agenda papers.

Warren McGregor provided the Board with an update on various projects being undertaken by the IASB (including those being progressed jointly with the FASB) and the nature of the IASB's outreach activities. Board members expressed concerns about the IASB apparently viewing targeted outreach as being a substitute for, rather than an expansion of the normal, more inclusive, due process. Warren noted that the IASB will consider, in due course whether there is a need to re-expose any aspects of any of its current projects. The Board noted the importance of it maintaining its efforts in providing input to the IASB's decisions at all stages of the development of an IFRS whenever possible and appropriate.

Review

Agenda Item 14

After noting that new staff had recently been recruited, some of whom had started, with another due to commence in September 2011, Board members made no specific comments.

Close of Meeting

The Chairman closed the meeting at 4.35 p.m. on Thursday 28 April 2011.

Approval

Signed by the Chairman as a correct record
this eighth day of June 2011.