



Subject: Minutes of the 121st meeting of the AASB
Venue: Ken Spencer Room, AASB offices
Level 7, 600 Bourke St, Melbourne
Time(s): Wednesday 7 December 2011 from 9.00 a.m. to 5.30 p.m.
Thursday 8 December 2011 from 8.30 a.m. to 12.45 p.m.

All agenda items except items 1 and 19 were discussed in public.

Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chair) Kris Peach (Deputy Chair) Glenn Appleyard Victor Clarke Michelle Embling Jayne Godfrey Sue Highland John O'Grady Brett Rix Roger Sexton Robert Williams
Apologies	Anna Crawford
In Attendance: Staff	Peter Batten 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) Angus Thomson (day 2)
Other	Joanna Perry (Observer) (day 2) Dr Peter Carey (item 16) Dr Brad Potter (item 16) Dr George Tanewski (item 16)



Agenda 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. Brett Rix advised that his employer may be affected by any accounting implications of a Minerals Resource Rent Tax.

Apologies, Minutes and Matters Arising from Minutes

Agenda Item 2

Apologies

Apologies were noted for Anna Crawford.

Minutes

The Board approved the minutes of the one hundred and twentieth meeting held on 26 October 2011.

Chairman's Report

Asian-Oceanian Standard-Setters Group (AOSSG)

The Board noted the success of the third annual Asian-Oceanian Standard-Setters Group (AOSSG) meeting hosted by the AASB on 23-24 November 2011. The meeting, which focused on current developments in International Financial Reporting Standards (IFRSs), was also attended by 8 members and staff of the International Accounting Standards Board. Lynn Wood, Chair of the Australian Financial Reporting Council, gave the opening address. Two IASB Trustees and a Deputy Chair of the IASB Advisory Council also attended the conference.

The Chairman also thanked Kris Peach for assisting him in Chairing the meeting and Anna Crawford, John O'Grady, Glenn Appleyard and Victor Clarke for making themselves available to observe the meeting.

At the meeting the IASB Chairman, Hans Hoogervorst, stressed the importance of both domestic standard-setting and regional arrangements. The IASB has acknowledged the importance of the transition to IFRS in this region as being a key plank in the move to global standards. The IASB and the AOSSG renewed their commitment to work closely together.

The conference involved detailed interchanges between each of the AOSSG Working Groups and the IASB attendees.

Australia has taken over as the Chair of the 25-jurisdiction grouping for the next two years, and Hong Kong has taken over as Vice Chair for the same period. The Chairman, Kevin Stevenson, will be supported in his role as AOSSG Chair by **Kris Peach**.



The meeting was followed by an IFRS Regional conference, which was a further opportunity for IFRS representatives to advise on recent IFRS developments and meet with constituents. AASB representatives participated.

Involvement with other bodies

The Chair and Technical Director attended a recent Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) meeting, which provided an opportunity to maintain positive relationships with the public sector. Robert Keys and Mischa Ginns participated in Australian Charities and Not-for-profit Commission (ACNC) task forces, which acknowledged the AASB's role as accounting standard setter and its project on service performance reporting. Given the relationship of the ACNC's work to the AASB's role, the Board decided to issue a Media Release that coincides with the timing of the release of the ACNC Taskforce's imminent proposals and acknowledges the proposals and the AASB's work on not-for-profit issues. Staff had also attended an Australian Bureau of Statistics Government Finance Statistics conference held in Canberra. Clark Anstis is currently at the IPSASB meeting in Brazil as the technical support for the Australian member.

Thought Leadership

The Board noted that the forthcoming revised Exposure Draft *Superannuation Entities* incorporates important intellectual capital that may be able to be used in assisting the IASB to revise IAS 26 *Accounting and Reporting by Retirement Benefit Plans* at some stage.

Approvals out of session

The Board had before it a Voting Summary (agenda paper 2.2). The Board was further advised that subsequent to preparation of this paper the Board had also approved on 6 December 2011 the Tier 2 supplement to ED 222 Revenue from Contracts with Customers. The Board noted its approvals, including ED 222 Revenue from Contracts with Customers issued under its delegated authority for the Chairman to issue IASB consultation documents where there is no significant additional Australian material.

Board Membership

Glenn Appleyard is retiring after the maximum allowed terms of service. The Board thanked Mr Appleyard for his valuable contributions over nine years, particularly in relation to the public sector.

New AASB members, and reappointment of existing members whose terms are expiring, are expected to be confirmed in the near future.

Other

The Board was advised that the Commonwealth budget for the Office of the AASB for this financial year has been reduced by 4%.

The Board also commended and thanked Lisa Clutter for her 25 years of staff service to the Board and its predecessor.



Other Business

Agenda Item 3

The Board had before it:

- (a) a memorandum from Peter Batten, Gunter Leng and Robert Keys dated 30 November 2011 re: Work Program and Consultation Submissions Pipeline (agenda paper 3.1);
- (b) Summary of AASB Work Program (November 2011) (agenda paper 3.1.1);
- (c) Detailed AASB Work Program (November 2011) (agenda paper 3.1.2);
- (d) Consultation Submissions Pipeline Report (November 2011) (Board only) (agenda paper 3.1.3);
- (e) AASB Sub-committee membership as at 30 November 2011 (Board only) (agenda paper 3.2);
- (f) letter from Stuart Dyson, Group Financial Controller, Macquarie Group to IASB Chairman dated 26 October 2011 re: Exposure Draft *Mandatory Effective Date of IFRS 9* (agenda paper 3.3);
- (g) submission from PricewaterhouseCoopers on ED 213 *Improvements to IFRSs* and ED 215 *Mandatory Effective Date of IFRS 9* [sub 4] (agenda paper 3.4);
- (h) letter from Andrew Terracini, Water Accounting Standards Board dated 26 October 2011 and response from AASB Chairman dated 10 November 2011 (agenda paper 3.5);
- (i) IASB response to G20 Conclusions October 2011 (agenda paper 3.6);
- (j) Report of the meeting of National Standard-Setters (NSS) 12-13 September 2011 (agenda paper 3.7);
and
- (k) Memorandum of Understanding between The International Accounting Standards Board and International Federation of Accountants (agenda paper 3.8).

The Board noted the agenda papers and requested that the Consultation Paper *Considerations of Materiality in Financial Reporting* issued by the European Securities and Markets Authority (ESMA) be added to the submissions pipeline report and consideration be given as to the suitability of the AASB making a submission.

The Board was advised that the membership of sub committees will be reviewed following the appointment of new Board members in 2012, with the Chair expressing a wish for more even and representative membership and participation, particularly as new sub-committees are formed in the future.

Action:	Staff
	Chair
	Board Members

IFRS Interpretations Committee

Agenda Item 4

The Board had before it:



- (a) a memorandum from Peter Batten and Gunter Leng dated 18 November 2011 (agenda paper 4.1);
- (b) Interpretations Issues in Progress – AASB Staff Summary (17 November 2010) (agenda paper 4.2);
- (c) *IFRIC Update* November 2011 (agenda paper 4.3); and
- (d) IFRIC Notes November 2011 (Confidential) (agenda paper 4.4).

The Board noted the progress the IFRS Interpretations Committee is making on various projects.

Control in the Not for Profit Public and Private Sector

Agenda Item 5

The Board had before it:

- (a) a memorandum from Lisa Panetta and Clark Anstis dated 29 November 2011 (agenda paper 5.1);
- (b) a paragraph-by-paragraph analysis of AASB 10 *Consolidated Financial Statements* including Aus paragraphs tentatively suggested by staff (agenda paper 5.2);
- (c) a summary of the Aus paragraphs for AASB 10 tentatively suggested by staff (agenda paper 5.3);
- (d) a document summarising the disposition of substantive Aus paragraphs in the superseded AASB 127 *Consolidated and Separate Financial Statements* (agenda paper 5.4); and
- (e) a summary of issues raised in research and technical enquiries (agenda paper 5.5).

The Board commenced a paragraph-by-paragraph review of AASB 10 *Consolidated Financial Statements* and considered issues relevant to developing proposals to amend that Standard to address NFP-sector specific issues.

The Board tentatively decided that the principles in AASB 10 can be applied in a NFP context, albeit using professional judgement, but that certain aspects of those principles and the terminology adopted would warrant NFP-specific implementation guidance. The Board will consider at a future meeting whether that guidance should be presented as integrated Aus paragraphs within the existing Application Guidance or as a separate attachment to AASB 10, noting that some issues might be adequately addressed through a Basis for Conclusions. The Board decided that as a general approach, Aus paragraphs in the body should be limited to those that either amend or add to the requirements. Accordingly, among other things, the Board decided that:

- (a) because many of the terms used in AASB 10 are for-profit oriented, the body of the Standard should include some explanations of how those terms would be applied in a NFP context; and
- (b) material outside the body of the Standard could include clarification of, from a NFP perspective:
 - (i) the application of the elements of control comprising: power, returns and variable returns;
 - (ii) regulatory power and its relationship to protective rights compared with participatory rights;
 - (iii) the principles relating to delegated power (including the notion of agent/principal), particularly in a public sector context; and



- (iv) the principles relating to whether parts of entities ('silos') should be consolidated, particularly in relation to trust fund structures in the NFP sector.

Attachment A to these minutes records the Board's decisions on each specific issue considered by the Board.

In making these decisions, the Board acknowledged there are some associated fundamental issues beyond the scope of AASB 10. They include issues particularly relevant in the public sector context relating to the nature of government departments as reporting entities and the role that disclosure of disaggregated information in whole of government financial reports might play in providing relevant information to users. The Board noted that it intends addressing these issues in due course – but observed that they do not need to be addressed prior to clarifying for NFP entities the application of the notion of control in AASB 10. The draft Basis for Conclusions to accompany the proposals reflecting the above decisions (and those recorded in Attachment A to these minutes) should acknowledge this staged approach to the issues.

The Board decided that staff's best endeavours should be made to provide a first draft of an Exposure Draft reflecting the Board's decisions, together with some worked examples [particularly relating to intermediate control issues in the public sector (e.g. relationship of statutory authorities to a Department and its Ministers); and the relationships between a local government and a state government] to the Board's February 2012 meeting. Board members were asked to provide to staff out of session any examples they think might be relevant.

Material for the February meeting should be developed in conjunction with the Board's sub-committee.

Action:	Staff
	Sub-committee
	Board members

Proposed Minerals Resource Rent Tax

Agenda Item 6

The Board had before it:

- (a) a memorandum from Nikole Gyles on the Proposed Minerals Resource Rent Tax – Potential Accounting Issues (agenda paper 6.1);
- (b) a Proposed Minerals Resource Rent Tax Issues Paper – Scope of AASB 112 and AASB Interpretation 1003 (agenda paper 6.2);
- (c) a Proposed Minerals Resource Rent Tax Issues Paper – Potential issues in applying AASB 112 to the proposed MRRT and extended PRRT (agenda paper 6.3);
- (d) a letter from Ross Jerrard and Tim Richards (Deloitte) Re: Accounting for the proposed Minerals Resource Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT) (agenda paper 6.4);
- (e) a letter from John Murray, Director, BDO to AASB Chairman dated 23 November 2011 re: Minerals Resources Rent Tax Bill 2011 (agenda paper 6.5); and



- (f) a further letter from John Murray, Director, BDO to AASB Chairman dated 25 November 2011 re: Petroleum Resource Rent Tax Assessment Amendment Bill 2011 (agenda paper 6.6).

The Board considered a staff analysis of potential accounting issues relating to the proposed MRRT and extended PRRT. The Board also noted that both tax Bills passed the House of Representatives on 23 November 2011, but had not yet passed the Senate. The Board also considered a number of letters received from constituents and feedback from targeted outreach performed by staff.

Scope of AASB 112

The Board considered the issue of whether the proposed MRRT would be an income tax within the scope of AASB 112 *Income Taxes*.

In considering this issue the AASB noted the International Financial Reporting Interpretations Committee (IFRIC) decision in March 2006 not to provide guidance on which taxes, in various jurisdictions, are within the scope of IAS 12. In that decision, the IFRIC noted that (i) not all taxes are within the scope of IAS 12, but (ii) because taxable profit is not the same as accounting profit, taxes do not need to be based on a figure that is exactly accounting profit to be within the scope. The IFRIC further noted that the term 'taxable profit' implies a notion of a net rather than gross amount.

The Board observed that there are differences between the calculation of the proposed Australian MRRT taxable profit and accounting profit and was of the view that such differences would not preclude the Australian MRRT, as proposed on 23 November 2011, from being a tax based on taxable profit.

The AASB also noted the similarities between the calculation of the proposed Australian MRRT and the Australian PRRT that is subject to the existing Interpretation, AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*, which includes the consensus that Australian PRRT is an income tax within the scope of AASB 112.

The Board thinks that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue of whether the proposed Australian MRRT, if legislated in its current form, should be accounted for as an income tax, either by applying the requirements of AASB 112 directly, or by applying the requirements of AASB Interpretation 1003 by analogy.

Accordingly, the Board decided to issue a Tentative Agenda Decision, based on the draft in Appendix A of agenda paper 6.2, subject to sub-committee review, conveying its view that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue and it does not expect that significantly divergent interpretations should arise in practice. This is consistent with the Board's view that the proposed MRRT would be an income tax within the scope of AASB 112, either directly, or by analogy to AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*.

Initial Recognition Exemption

The Board discussed an issue that was raised by some constituents during the staff's outreach relating to whether the initial recognition exemption could be applied to the introduction of the proposed MRRT and extended PRRT. The Board was of the view that it would not be appropriate to apply the initial recognition



exemption in AASB 112 to the introduction of the proposed MRRT and extended PRRT, on the basis that the assets to which the proposed MRRT and extended PRRT would apply are already recognised.

Accounting for the starting base allowance market value uplift

The Board considered the issue of how to apply the requirements of AASB 112 to the starting base allowance market value uplift in the proposed MRRT and proposed PRRT.

The Board noted that the starting base allowance market value uplift is an option that would be available to entities on transition to the proposed resource rent tax regime in Australia. The option would permit entities to elect an initial tax value for assets based on the market value of each eligible operation.

In considering this issue, the Board noted that the application of AASB 112 requires an entity to reflect an increase in the deductions available (resulting in future tax payments being smaller than if no uplift were to occur) as a deductible temporary difference giving rise to a deferred tax asset to the extent it meets the recognition criteria in AASB 112.

The Board decided to issue a Tentative Agenda Decision, based on the draft in Appendix A of agenda paper 6.3, subject to sub-committee review, conveying its view that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue and it does not expect that significantly divergent interpretations should arise in practice, assuming the proposed resource rent tax Bills are legislated in their current form.

Accounting for royalties

The Board considered the issue of how production based royalties paid to State governments that can be claimed as an allowance against MRRT payable to the Federal government should be accounted for. The Board noted that:

- (a) some might interpret them as being production costs and that the MRRT/PRRT payable should be recognised on the incremental amount to be paid; and
- (b) others might interpret the royalties as being prepaid MRRT/PRRT under existing Australian Accounting Standards.

The Board noted that both approaches could lead to the same net income, but would differ as to the classifications of expenses. The Board did not see any difficulty with the first view under AASB 112, and, whilst not disagreeing with the alternative view, decided, in relation to it, to initiate its Interpretations Protocols, including raising the issue with the IFRS Interpretations Committee. The Board decided that a sub-committee should review materials developed in relation to the Interpretations Protocols.

Substantive enactment

The Board considered the issue of when it would be appropriate to conclude that substantive enactment of the proposed MRRT and extended PRRT has occurred.

In considering this issue, the Board noted AASB Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia* requires that substantive enactment of a tax Bill shall be taken to have occurred once the



Bill has been tabled in Parliament and there is majority support for the passage of the Bill through both Houses of Parliament.

The Board observed that the assessment of whether there is majority support for the passage of a Bill through both Houses of Parliament requires the application of judgement. It did not wish to override that requirement by introducing a more rule-based approach.

The Board decided to issue a Tentative Agenda Decision that conveys the view that existing guidance in Australian Accounting Standards and Interpretations is sufficient to address the issue of when substantive enactment has occurred, and does not expect that significantly divergent interpretations should arise in practice, based on the draft in Appendix B of agenda paper 6.3, subject to sub-committee review, noting that the application of the principles in AASB Interpretation 1039 requires judgement.

Further research

The Board decided it would not be necessary to undertake further research into potential improvements that could be made to AASB 112 to address the potential practical issues of applying AASB 112 to the proposed MRRT and extended PRRT. However, the Board decided to give consideration to reviewing AASB Interpretation 1039.

Process

The Board decided that the tentative agenda decisions referred to above, and the materials to be developed as part of the Interpretations Protocols, should be developed in accordance with the policies and processes outlined in the AASB's *Interpretations Model (June 2006, as modified in December 2007)*, and reviewed by a sub-committee consisting of Victor Clarke, John O'Grady, Kris Peach and Kevin Stevenson.

Action:	Staff
	Board
	Sub-committee

GAAP/GFS Harmonisation – AASB 1049 revised

Agenda Item 7

The Board received a verbal update from staff on the Board members' out-of-session comments on the Pre-Ballot Draft Amending Standard AASB 2011-13 *Amendments to Australian Accounting Standards – Improvements to AASB 1049* (the Draft). It was noted that no sweep issues were raised and only editorial amendments had been identified.

The Board also noted that some additional amendments had been identified as part of staff's quality control processes. Some of the more significant amendments include:

- (a) AASB 1049 Paragraph 42(a)(iv) – the reference to AASB 127 should be amended to AASB 128 as it is referring to the equity method for investments in associates;



- (b) AASB 1049 paragraph 42(b)(i) – the first and third references to ‘minority interest’ should be amended to ‘non-controlling interest’ for consistency with the terminology in AASB 127 *Consolidated and Separate Financial Statements*; and
- (c) AASB 1049 paragraph 44(a)(iv) - the paragraph that identifies the GAAP/GFS difference in relation to classification of cash flows for purchases of defence weapons platforms should be removed as this difference no longer exists.

The Board noted that a Ballot draft will be finalised reflecting the above amendments for out-of-session voting shortly.

Action: Staff
Board members

Accounting for Government Loans by First-time Adopters

Agenda Item 8

The Board had before it:

- (a) a memorandum from Sue Lightfoot and Huy Pham dated 17 November 2011 re: ED 221 *Government Loans* (proposed amendments to AASB 1) (agenda paper 8.1);
- (b) ED 221 (agenda paper 8.2); and
- (c) submission from Ernst & Young on ED 221 dated 5 December 2011 (agenda paper 8.3).

The Board discussed the proposed amendments, arising from AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, contained in AASB ED 221, which incorporates the IASB’s ED/2011/5 *Government Loans*. After considering the submission received, the Board decided to express support for the IASB proposals. The submission to the IASB should be drafted by staff and cleared through the Chairman.

The Board also considered whether AASB 1004 *Contributions* should give rise to a similar kind of amendment to AASB 1 *First-time Adoption of Australian Accounting Standards* for NFP first-time adopters of Australian Accounting Standards – to provide relief from retrospective application of the fair value requirements in AASB 1004. The Board decided to consider this issue in the context of the Board’s active project on Income of NFP Entities, which includes a review of AASB 1004. The Board asked staff to consider the merits of making an amendment to the current AASB 1004 in the short term.

Action: Staff
Chairman

Consolidation – Investment Entities

Agenda Item 9

The Board had before it:

- (a) a memorandum from Lisa Panetta and Angus Thomson dated 18 November 2011 (agenda paper 9.1);



- (b) comments received on AASB ED 220 *Investment Entities* (agenda paper 9.2);
- (c) AASB Media Release *Investment Entities proposals could have far-reaching impacts* dated 4 October 2011 (agenda paper 9.3); and
- (d) AASB ED 220 *Investment Entities* (incorporating IASB ED/2010/4) (agenda paper 9.4).

Some members of the AASB indicated their strong opposition to any form of exception from consolidation. Others indicated that, if a principle-based way of identifying 'investment entities' could be found, that they would support a proposal to require fair value accounting of subsidiaries rather than consolidation for such entities. However, serious doubts were expressed about whether such a principle-based solution could be found.

The Board agreed that its submission to the IASB should:

- (a) identify that a significant number of AASB members disagree with the proposals on the basis that consolidation is a basic principle that underpins all general purpose financial reporting and, without consolidation, users would be deprived of an overall picture of investment entities' resources and how they have been deployed and the relevant revenues and expenses they have generated;
- (b) identify that an equally significant number of AASB members consider that there is a place for a principle-based notion of investment entities that should apply fair value accounting to subsidiaries, but that they also disagree with the rule-based nature of the proposals;
- (c) note that those members opposing any exception from consolidation consider, if fair value information is considered particularly significant for a certain class of entity, then it should be required to be disclosed and not be a substitute for consolidation;
- (d) note that the proposal to identify certain types of entity for a particular accounting treatment is not consistent with the IASB's long-standing practice of transaction-based standard setting;
- (e) note that those members opposing any exception from consolidation consider the IASB has not established why it should depart from its proposals in ED/2010/2 *Conceptual Framework for Financial Reporting – The Reporting Entity* that an entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself and should therefore prepare consolidated financial statements;
- (f) emphasise that the proposed criteria are rule-based and therefore inappropriate because they will inevitably result in inconsistent outcomes in similar economic circumstances;
- (g) note that any entity-based exemption could be problematic in a global context and that the existing examples of consolidation exemptions are at a national level where legislation or other domestic requirements are able to clearly identify separate classes of entities;
- (h) identify that criteria (a), (b) and (c) imply the notion of a passive investor and that the AASB believes this is completely inconsistent with the whole idea that the basis for identifying a reporting entity is the notion that an investor has the power to act, rather than necessarily acting in relation to an investee;



- (i) note that, while the AASB does not support rule-based criteria, if a consolidation exception were made, it supports the criteria that limit the extent of that exception and the extent to which structuring would occur to achieve particular outcomes. This includes, in particular, prohibiting fair value accounting (and requiring consolidation) by non-investment entities that are parents of investment entities; and
- (j) disagree with the proposed change to the scope exemption in IAS 28 *Investments in Associates and Joint Ventures*. This is on the basis that a review of equity accounting is well overdue and the ED/2011/4 proposals would further entrench equity accounting without any critical analysis having been done. The Board noted that the proposals would have far-reaching implications for many Australian reporting entities, particularly insurers.

The Board noted that submissions to the IASB are due by 5 January 2012 and agreed that a draft submission should be circulated to all members out-of-session with a view to finalising the AASB's comment letter before the Christmas break.

Action: Staff
Board Members

IPSASB Consultation Paper Reporting Service Performance Information

Agenda item 10

The Board had before it:

- (a) a memorandum from Mischa Ginns dated 21 November 2011 re: IPSASB Consultation Paper Reporting Service Performance Information (agenda paper 10.1);
- (b) a Staff Paper identifying potential issues that could be raised in an AASB submission on the IPSASB Consultation Paper (agenda paper 10.2); and
- (c) IPSASB Consultation Paper Reporting Service Performance Information (agenda paper 10.3).

The Board decided to make a submission to the IPSASB on its Consultation Paper (CP). Given the AASB's Service Performance Reporting project is proceeding under the working assumption that a principles-based Standard on the topic might be developed, the Board decided its submission should reflect that approach, whilst acknowledging that the IPSASB might have a less ambitious objective. However, in light of the Board's own project being a work in progress, the submission should not express a view that the guidance being developed by the IPSASB should be mandatory. On that basis, the Board decided its submission should:

- (a) express its general support of the:
 - (i) primary objective of the IPSASB's CP to present a principles-based approach to developing a consistent framework for reporting service performance information by public sector entities; and
 - (ii) development of service performance reporting guidance that is consistent with any Conceptual Framework that is developed by the IPSASB, subject to the content of that Framework; and



- (b) consistent with the staff suggestions in agenda paper 10.2, recommend the IPSASB considers:
- (i) establishing principles that should be applied in determining what service performance information should be reported in general purpose financial reports to meet the needs of users, instead of providing a list of service performance information that could be reported. For example, establishing a principle that could be applied in identifying specific indicators of service performance appropriate to a particular entity;
 - (ii) explicitly defining service performance reporting and the scope of service performance information that belongs in general purpose financial reporting;
 - (iii) broadening the focus of reporting service performance information to include information about the capacity to continue to provide goods and services and the change in that capacity during the reporting period. For example, this could include information about the entity's performance in obtaining resources that enables the entity to deliver services in the future and information about whether an entity's service delivery activities eroded its asset base and reduced its ability to continue to provide services;
 - (iv) clarifying the ambiguity in some of the working definitions and examples in the CP; and
 - (v) including some measurement concepts in relation to indicators of service performance.

The Board decided that the submission should be finalised out of session via a sub-committee comprising Sue Highland, Ian McPhee and Kevin Stevenson, unless in the interim the Board is made aware of additional concerns about the CP not addressed during the meeting. Board members were asked to provide to staff out-of-session any comments on Appendices A and B of agenda paper 10.2.

On his retirement from the Board, Glenn Appleyard was thanked for his involvement as a sub-committee member on the AASB's Service Performance Reporting project. The Board noted Sue Highland will take his place on this sub-committee. One of the new Members to be appointed from 1 January 2012 should also be invited to join this sub-committee.

Action:

Staff
Board members
Sub-committee

IASB Agenda Consultation

Agenda Item 11

The Board had before it:

- (a) a memorandum from Angus Thomson dated 16 November 2011 (agenda paper 11.1);
- (b) Matters to be raised in AASB submission on IASB Request for Views *Agenda Consultation 2011* (agenda paper 11.2);
- (c) comments from constituents on ITC 25 Request for Comment on IASB Request for Views *Agenda Consultation 2011* (agenda paper 11.3); and



(d) IASB Request for Views *Agenda Consultation 2011* (agenda paper 11.4).

The Board noted the submissions from Australian constituents on AASB Invitation to Comment 25.

The Board confirmed that its submission to the IASB should:

- (a) urge the IASB to focus on global IFRS adoption for all types of entities (for-profit and not-for-profit), rather than convergence with US GAAP. In particular, the Board agreed to flag the Memorandum of Understanding recently signed by the IASB and the IPSASB and to emphasise the need for the two boards to go beyond liaison and better integrate their standard-setting efforts;
- (b) emphasise the significance of global convergence in light of the many jurisdictions in Asia and Latin America that are in the process of transitioning to IFRSs, and that a period of stability once the current major projects are completed would be welcome because it would help facilitate the adoption of IFRSs by many jurisdictions;
- (c) note that the IASB needs to be mindful of catering for the different perspectives of different jurisdictions and use generic and principle-based language – for example, to help facilitate the application of IFRSs in the context of Islamic finance or in a not-for-profit context – on the basis that this is essential to achieving one global set of standards;
- (d) note the important role the IFRS Interpretations Committee could play in helping to facilitate the consistent global application of IFRS. The AASB considers the experience of the IFRS Interpretations Committee would be valuable in identifying the tools for dealing with inconsistencies of application that undermine the IFRS brand, rather than through more interpretations;
- (e) support continued work on the Conceptual Framework, particularly as means of underpinning greater consistency of accounting treatments across IFRSs;
- (f) emphasise the need to deal with projects at a broad level (as an alternative to separately dealing with the topics specifically identified on page 14 of the Request for Views) to help avoid inconsistent outcomes for similar items and as a way of making IFRSs more cohesive and less complex. The Board noted the examples of broad topics included in agenda paper 11.2;
- (g) note that the AASB's project using the IASB's work on 'revenue recognition from contracts with customers' as the foundation for requirements on income of not-for-profit entities might be useful as a basis for dealing with all income recognition in one IFRS and facilitating the removal of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
- (h) note that the AASB's project on superannuation entities, could be a model for revising IAS 26 *Accounting and Reporting by Retirement Benefit Plans*, because it would be a basis for improving IAS 26 and bringing its requirements closer to the requirements of other IFRS;
- (i) highlight the need for some resources to be devoted to researching strategic issues; and
- (j) note that the IASB's communication should be more focused on a meaningful explanation of why changes to IFRSs are needed in terms of both minor and major changes, because any changes



impose potentially significant costs on all of those involved in using standards, including preparers and users.

The Board agreed that the submission to the IASB should be finalised through the Chairman.

Action: Staff
Chairman

Revenue from Contracts with Customers

Agenda Item 12

The Board had before it slides on *Revenue from Contracts with Customers* (agenda paper 12.1) which formed the basis of an education session, supplementing earlier education sessions, on the recently released IASB ED/2011/6 *Revenue from Contracts with Customers*. The session included identification of some of the concerns staff have with the proposals and outline of a project plan. The project plan will include meeting with participants in affected industries and having a draft comment letter available for the February 2012 Board meeting. No decisions were made.

Action: Staff

UK Financial Reporting Council – Public Consultation on future role of Accounting Standards Board

Agenda Item 13

The Board had before it:

- (a) a memorandum from Kevin Stevenson dated 18 November 2011 (agenda paper 13.1);
- (b) a confidential personal (Kevin Stevenson) draft submission re UK Financial Reporting Council – public consultation on its future role (agenda paper 13.2); and
- (c) *Proposals to reform the (UK) Financial Reporting Council* – public consultation document (agenda paper 13.2).

The Board considered the reform proposals in relation to the UK FRC, some of which would, if implemented, significantly affect the UK Accounting Standards Board. The Board concluded that it was most appropriate that the draft submission in agenda paper 13.2 be made personally by the Chairman.

Leases

Agenda Item 14

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 16 November 2011 re: Leases – Project update (agenda paper 14.1); and
- (b) tentative decisions made by the IASB/FASB on the *Leases* project – November 2011 (agenda paper 14.2).



The Board received an update on the tentative decisions made by the IASB and the FASB in their October 2011 and November 2011 meetings on the Leases project. The Board decided that, whilst it had some concerns about some aspects of the recent decisions, none of those decisions gave it cause to write to the IASB at this stage, given the IASB's decision to re-expose the Leases proposals in the first half of 2012.

Action: Staff

Extractive Industries Transparency Initiative

Agenda Item 15

The Board had before it a memorandum from Sue Lightfoot dated 17 November 2011 re: Extractive Industries Transparency Initiative (agenda paper 15.1).

The Board received a briefing on the Extractive Industries Transparency Initiative (EITI) and the Australian EITI pilot scheme that is to commence on 1 July 2012, and decided to continue to monitor developments regarding any implications they might have for general purpose financial reporting.

Progress Report on the Differential Reporting Research Project

Agenda item 16

The Board had before it:

- (a) a memorandum from Ahmad Hamidi (agenda paper 16.1); and
- (b) presentation slides by research consultants (agenda paper 16.2, tabled) (confidential).

The Board received its third update on the progress of the Differential Reporting research project from external consultants. The research project was initiated to address the following issues:

- (a) whether the population of non-reporting entities has consistent characteristics; and
- (b) the nature of the accounting policies adopted by non-reporting entities.

The consultants supplemented their previously reported preliminary findings with further results obtained in extending their tests to the whole sample of large proprietary companies under consideration. Preliminary results were also reported in relation to other categories of companies being examined. The consultants expect to draw together their findings, for the current stage of the research into corporates, in a February 2012 report.

The Board noted that the research is continuing, and will include extending statistical tests to the full samples of all categories of lodging entities. Consideration of factors affecting the choice between general purpose and special purpose financial statements, where such a choice is available, will also be part of the future analyses.

Financial Instruments

Agenda Item 17

The Board had before it:



- (a) a memorandum from Sue Lightfoot and Shu In Oei dated 17 November 2011 re: Hedge Accounting (agenda paper 17.1);
- (b) slides on Financial Instruments – Macro Hedge Accounting (agenda paper 17.1.1); and
- (c) a memorandum from Christina Ng dated 16 November 2011 re: Financial Instruments Impairment – project update (agenda paper 17.2).

IFRS 9

The Board received an update on the decisions made by the IASB in its November 2011 meetings on financial instruments. In particular, the Board noted the IASB's decision to amend IFRS 9 *Financial Instruments* to defer its mandatory effective date to annual periods beginning on or after 1 January 2015 (rather than 1 January 2013) and the IASB's decision to make limited improvements to IFRS 9. The Board discussed the possible amendments to IFRS 9 including: the contractual cash flow characteristics test, bifurcation of financial assets and remeasurement through Other Comprehensive Income. No decisions were made.

Macro hedge accounting

The Board received an education session on macro hedge accounting. The session included an overview of macro hedge accounting, current accounting for such hedges under IAS 39 *Financial Instruments: Recognition and Measurement* and an update on the status of the IASB's progress on the topic. No decisions were made.

Emerging Issues

Agenda Item 18

The Board did not identify any emerging issues other than those on this meeting's agenda or noted below.

Emissions Trading Scheme

The Board noted that the auctioning of permits is expected to commence in 2013 (that is, before the scheme comes into operation), which could affect when any accounting issues might need to be addressed. The Board noted that whether or not it would need to issue an Interpretation to address any accounting issues might depend on the level of diversity of accounting treatment expected to emerge within Australia relative to the diversity that might emerge elsewhere.

Action: Staff

Review

Agenda Item 19

The Board:

- (a) noted the increased amount of work that is being asked of Board members out of session and suggested that consideration could be given to reducing the number of face-to-face meetings;



- (b) suggested that, depending on the nature of the issues a sub-committee is asked to consider, it might be advantageous for a sub-committee to meet either face-to-face or by teleconference.
- (c) noted that the NZ ASB and some company boards in Australia are making use of tablet computers for the electronic distribution of board papers; and
- (d) encouraged further communication with constituents of the Board's work in relation to the NFP sector (see Agenda item 2 above, under 'involvement with other bodies' regarding the ACNC).

Close of Meeting

The Chairman closed the meeting at 12.45 p.m. on Thursday 8 December 2011.

Approval

Signed by the Chairman as a correct record
this fifteenth day of February 2012



Attachment A

Detailed decisions made by the Board in relation to agenda paper 5.2 *Paragraph-by-Paragraph Analysis of AASB 10*.

Aus paragraph tentatively suggested by staff	Board's Decision
Aus4.3, which addresses circumstances where a parent of a group is not explicitly identified.	Although this circumstance can arise in a for-profit private sector context (for example chaebols in Korea), the circumstances are more prevalent in the NFP sector. Accordingly, the Board decided that the matter should be explicitly addressed in AASB 10 from a NFP perspective, and to consider at a future meeting whether it should be retained as an Aus paragraph in the body of the Standard or as implementation guidance (perhaps by way of an example) or through the Basis for Conclusions.
Aus4.4, which addresses the concern that AASB 10 uses terms that are for-profit oriented.	The paragraph should be amended to explain the terminology in a NFP context rather than define it. For example, paragraph Aus4.4(b) should be amended to say that returns 'include' rather than 'are' financial or non-financial. Furthermore, in relation to paragraph Aus4.4(a), the order of the two sentences should be reversed to give a more logical structure, and consideration should be given to narrowing the explanation of the relationship between investor and investee by replacing the phrase 'some' relationship with a narrower notion.
Aus7.1, which addresses an investor's power to direct the investee to pursue an investor's objectives.	The content of the paragraph provides a useful example of when power might exist in a NFP context and should be relocated as implementation guidance or addressed through the Basis for Conclusions.
Aus7.2, which addresses situations in which an investor may not have power due to the existence of separate administrations.	The content of the paragraph should not be included in AASB 10 because of concerns about its implications for the consolidation of trust funds and lack of clarity about the meaning of 'separate administrations'. The Board noted that issues pertinent to the paragraph could more suitably be drawn out in the context of principles relating to parts of entities ('silos').
Aus11.1, which notes that power may be obtained from statutory or other arrangements.	The subject matter should be addressed in implementation guidance. On a related matter, the Board decided to make clear that a reference to 'legislative rights' is a reference to legislative rights that currently exist, rather than a government's ability to change legislation, which needs to have regard to the role of the Parliament.



Aus paragraph tentatively suggested by staff	Board's Decision
	<p>Therefore, the content of paragraph 30 of IPSAS 6 <i>Consolidated and Separate Financial Statements</i>, should be incorporated into AASB 10. The Board noted the view that this may be regarded by some as inconsistent with the 'current ability' principle in paragraph 12 of AASB 10 and therefore will consider at a future meeting whether the matter should be addressed in an Aus paragraph in the body of the Standard rather than in implementation guidance.</p>
<p>Aus15.1, which notes that a NFP entity's exposure or rights to variable returns is evident when an investor has the right to residual assets or exposure to residual liabilities of the investee; and Aus16.1, which notes that a NFP entity may receive returns from an investee indirectly rather than directly.</p>	<p>Paragraph Aus15.1 should not be included in AASB 10 because of concerns about its interpretation in relation to companies limited by guarantee that, on winding up, cannot distribute net assets other than to an entity with similar objectives. The Board noted that paragraph Aus16.1 addresses matters pertinent to paragraph 15 and therefore decided that paragraph Aus16.1, subject to some editing, should replace Aus15.1, in the form of guidance, perhaps as an example.</p>
<p>AusB9.1, which addresses power where an investor establishes an investee.</p>	<p>The content of the paragraph should be retained but expanded to incorporate more of paragraph Aus17.3(f) of superseded AASB 127 and the example changed to be more contemporary (e.g. an R&D corporation). Also, the content should be linked to paragraph B15. Furthermore, it should make clear that all facts and circumstances need to be considered in determining whether control exists.</p>
<p>AusB10.1, which notes that an investor may not hold power over an investee due to the rights of other parties.</p>	<p>The content of the paragraph should be expressed more as principles with supporting, more comprehensive, examples and note that other factors in addition to those mentioned in paragraphs B10 and AusB10.1 may need to be considered in determining if control exists.</p> <p>Consideration should be given to whether the subject matter of subparagraph (a) should be relocated to a discussion about economic dependence.</p> <p>The issues addressed in subparagraph (b) (a local government managed by an administrator; and a local government managed by an elected council) need to be separated. The discussion of whether an administrator controls an entity needs to be considered more generally in terms of a liquidator/receiver's relationship to an entity, given that an administrator typically would have a limited role and</p>



Aus paragraph tentatively suggested by staff	Board's Decision
	<p>would not control the entity for its own benefits – therefore, being an administrator by itself would not mean control.</p> <p>Comprehensive examples concerning universities and local governments should be developed for consideration by the Board, to assist the Board in identifying the level of guidance needed.</p>
<p>Example Aus1.1, which provides an example of determining who controls an investee when two or more investors have the ability to direct the relevant activities of an investee.</p>	<p>AASB 10 needs to include guidance that addresses control at a sub-entity level. This would be an improvement on superseded AASB 127, which focuses on government control issues rather than sub-entity control issues. Accordingly, the example should be retained, but amended to clarify the role a Minister might play in the public sector and not imply that a Minister would prepare a financial report on a ministerial basis. In addition, the Board decided contrasting examples should be included that demonstrate common situations in the public sector – one in which it is evident a department controls a statutory authority and one in which it does not (because the department merely has an administrative role in advising the responsible Minister) – see also the Board's decision relating to paragraphs AusB60.1 and AusB61.1 below.</p>
<p>AusB15.1, which provides examples of rights giving power to a NFP entity.</p>	<p>The content of subparagraph (c) should not be included because it effectively repeats subparagraph B15(b).</p>
<p>AusB15.2, which notes that power over an investee may exist even in the absence of being responsible for the day-to-day management of the operations of the investee.</p>	<p>The content of the paragraph should be amended to clearly state that, in the example given, subject to other facts and circumstances, the entity would be consolidated into the whole of government.</p>
<p>AusB19.1, which notes that an indicator of power in the NFP sector includes the investee being accountable to the investor.</p>	<p>Do not retain the paragraph, due to the risk that it may be misinterpreted. For example, it could be read as suggesting that every company that reports to ASIC would be required to be consolidated by ASIC. Accountability obligations might indicate other rights exist that give power rather than being a direct indicator of power.</p>
<p>AusB23.1, which notes that political barriers are a factor to be considered in determining whether rights are substantive.</p>	<p>The content of the paragraph should be amended to more fully reflect the conclusion in paragraph 32 of IPSAS 6 that control exists despite political barriers because the power to control is sufficient, even though the controlling entity may choose not to exercise that</p>



Aus paragraph tentatively suggested by staff	Board's Decision
	power.
Example Aus3.1, which provides a public sector example of the determination of whether rights are substantive rights even though the rights are not currently exercisable.	The example should not be retained. Instead, the matters addressed in the example should be addressed in the context of the impact on control of the government's ability to legislate – see the Board's decision in relation to paragraph Aus11.1 above.
AusB26.1, which notes that NFP entities may hold protective rights in the form of regulatory powers that do not constitute control even though they restrict the way the regulated entity operates.	The content of the paragraph should be amended to be less definitive by addressing the implications of legislative power more generally in terms of protective versus participatory rights. It should also address the question of whether coinciding objectives is enough to require consolidation. Consideration should also be given to the implications of the issue arising in the context of Service Concession Arrangements of a grantor and a regulator being separate government departments.
AusB27.1, which notes that protective rights may be held by a NFP entity to protect the interests of the public or the beneficiaries of the entity.	The paragraph should be amended to better elaborate on paragraph B27, and include an example, perhaps of a charity where the government might be able to act to protect beneficiaries but not directly in its own self-interest.
AusB28.1, which provides examples of protective rights in the NFP sector.	The content of the paragraph should be retained. However subparagraph AusB28.1(d) should be amended to address circumstances where (i) an investor can determine to where net assets are distributed on winding up of a NFP entity – in which case the rights are participatory; and (ii) an investor cannot determine to where net assets are distributed other than specify to an entity with similar objectives – in which case the rights are protective.
AusB57.1, which notes that returns in the NFP sector may be financial or non-financial.	Do not retain subparagraph (a) on the basis that financial returns is already addressed in paragraph B57, and consequently amend the remaining text to read “ ... examples of returns could also include ...”
AusB60.1 and AusB61.1, which address agency and delegated control issues.	Subparagraph (a) should be amended to avoid implying that a department is necessarily an agent of a Minister (because if it were, a department could not control a statutory body). Therefore, the example in (a) should be rewritten to better articulate the distinction between an agent and principal, and agency and delegated control. It should also illustrate the relationship between a statutory body and its Minister and that Minister's department (see also the Board's



Aus paragraph tentatively suggested by staff	Board’s Decision
	decision relating to example Aus1.1 above).

In addition to the above, the Board also discussed:

- (a) paragraph B37 of AASB 10, which addresses circumstances when an investor holding a majority of voting rights will not have power over an investee when those voting rights are not substantive including, when the relevant activities of the investee are subject to direction by a regulator. The Board decided that NFP implementation guidance should be added that clarifies how the paragraph would apply in a NFP context, particularly in the public sector. For example, it should avoid the inaccuracy of saying a government does not have power if that government can direct the relevant activities. Furthermore, it should include a cross-reference to the content of paragraph AusB26.1 in relation to protective vs. participatory rights.
- (b) paragraphs B73 – B75 of AASB 10, which address relationships with other parties in determining if the other parties are actually ‘de facto agents’ and acting on the investor’s behalf. The Board decided that NFP implementation guidance should be added that clarifies how the paragraphs would apply in a NFP context – particularly in relation to identifying relationships between entities and which entities would be consider to be ‘de facto agents’.
- (c) Paragraphs B76 – B79 of AASB 10 relating to control of specified assets and whether an entity should treat a portion of an investee as a deemed separate entity and if the investor controls the deemed separate entity. The Board decided that staff should consult further with the sub-committee to determine whether specific NFP guidance is needed – particularly given the number of activities in the public sector that are ‘ring-fenced’.