



**Subject:** Minutes of the 117<sup>th</sup> meeting of the AASB

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

**Time(s):** Wednesday 8 June 2011 from 9.00 a.m. to 5.30 p.m.  
Thursday 9 June 2011 from 9:00 a.m. to 1.00 p.m.

All agenda items except items 1 and 20 were discussed in public.

## Attendance

Members	Kevin Stevenson (Chairman) Ian McPhee (Deputy Chair) Kris Peach (Deputy Chair) Glenn Appleyard Anna Crawford Jayne Godfrey Mark Jenkin (day 2) John O'Grady Joanna Perry Brett Rix Roger Sexton Robert Williams
Apologies	Victor Clarke Sue Highland Mark Jenkin (Day 1)
In Attendance	
Staff	Clark Anstis (in part) Natalie Batsakis (in part) Peter Batten Mischa Ginns (in part) Ahmad Hamidi (in part) Nikole Gyles (in part) Kala Kandiah (in part) Robert Keys Ting Lin (in part) Christina Ng (in part) (by teleconference) Lisa Panetta (in part) Latif Oylan (in part) Jim Paul (in part) Angus Thomson
Other	Dr. Peter Carey (Consultant) – item 5 Merran Kelsall (AUASB Chair) – item 7 Dr. Brad Potter (Consultant) – item 5

## **Agenda, Declaration of Interests and Chairman's Report**

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.

### **Chairman's Report**

#### *Meetings*

The Chair advised the Board about meetings he had recently attended, including the IFRS Regional Policy Forum in Bali, the Asian-Oceanian Standard-Setters Group (AOSSG) and a presentation at an Indonesian Institute international seminar. He and the Research Director had also attended a recent Senate Estimates Committee, but were not called. The Chair also thanked Board members and staff who had made presentations to relevant meetings of constituents and others.

#### *Future events*

The Chair advised that the AASB will be hosting two Public Sector and Private Sector Not-for-Profit Symposiums in Melbourne and Sydney in August 2011. He also reminded members that the new Financial Reporting Council Chair would attend day two of the next AASB meeting, that the AOSSG will be meeting in Melbourne on 23/24 November and advised that it will be followed by an IASB technically focussed Regional Conference on 25 November.

#### *Out of session voting*

The Chair noted that it is important that all members consider and vote on rotary resolutions circulated out of session. Board members asked that staff send a personalised reminder email to any Board member who has not voted within about 24 hours of the voting deadline.

#### *Board membership*

The Chair advised that this was the final meeting to be attended by Joanna Perry in her capacity as an AASB member. The Board thanked Ms Perry for her considerable contribution to the Board's work. The Board noted she will continue to assist the Board in her capacity as a member of the IFRS Interpretations Committee.

## **Apologies, Minutes, Matters Arising from Minutes and out of session approvals**

Agenda Item 2

### **Apologies**

Apologies were noted for Victor Clarke (days 1 & 2), Sue Highland (days 1 & 2) and Mark Jenkin (Day 1).

## Minutes

The Board considered and approved the minutes of the one hundred and sixteenth meeting held on 28 April 2011.

## Out of session approvals

The Board noted that since its April 2011 meeting, the Board has approved the following Accounting Standards:

<b>Date Approved</b>	<b>Topic</b>	<b>Date effective from</b>
11 May 2011	AASB 1054 <i>Australian Additional Disclosures</i>	1 July 2011
11 May 2011	AASB 2011-1 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project</i>	1 July 2011
11 May 2011	AASB 2011-2 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	1 July 2013
20 May 2011	AASB 2011-3 <i>Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]</i>	1 July 2012
11 May 2011	AASB 2011-2 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	1 July 2013

## Fair Value Measurement

Agenda Item 3

The Board had before it:

- (a) a memorandum from Mischa Ginns and Raymond Yu dated 24 May 2011 (agenda paper 3.1);
- (b) a staff paper entitled Comparison of IFRS 13 with the AASB's submission on selected issues in the related Exposure Drafts (*agenda paper 3.2*);
- (c) IFRS 13 *Fair Value Measurement* (agenda paper 3.3);
- (d) AASB submission on ED/2009/5 *Fair Value Measurement* (agenda paper 3.4);
- (e) AASB submission on ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurement* (agenda paper 3.5); and
- (f) a staff paper on Sweep issues on Draft Analysis of Disclosure Requirements in AASB 13 *Fair Value Measurement* (agenda paper 3.6, tabled).

After noting that IFRS 13 does not address all the concerns expressed in the Board's submissions to the IASB on ED/2009/5 *Fair Value Measurement* and ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurement*, the Board decided to write to the IASB reiterating those concerns and suggesting the IASB reconsiders them as part of a post-implementation review of IFRS 13. The letter will be drafted by staff and cleared through the Chairman. In addition, the Board decided to monitor Australian

implementation experience regarding these issues and, where appropriate, bring issues to the attention of the IASB.

In relation to NFPs, the Board confirmed its earlier decision not to include any modifications to IFRS 13 in AASB 13. However, the Board decided to consider clarifying AASB 136 *Impairment of Assets*, to address the fact that AASB 13 treats depreciated replacement cost as a measure of fair value whereas, for NFPs, AASB 136 treats depreciated replacement cost as a measure of value in use. It requested staff to review this difference and provide an analysis at a future AASB meeting in time for the issue to be resolved before IFRS 13 becomes mandatory.

The Board agreed to vote out of session on whether to make IFRS 13 (issued by the IASB in May 2011) as an Australian Accounting Standard (AASB 13) – no Board member indicated an intention to oppose its adoption. The Standard would apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted.

The Board also considered issues relating to its draft proposals for Tier 2 reduced disclosure requirements of the anticipated AASB 13. In particular, the Board decided that:

- (a) paragraph 91(b) of AASB 13 should be excluded from the Tier 2 disclosure requirements; and
- (b) paragraph 94(b) and the paragraph that follows paragraph 94 of AASB 13 should be retained in the Tier 2 disclosure requirements.

The Board expressed its intention, subject to best endeavours, that the Tier 2 Exposure Draft and accompanying analysis be finalised out of session and issued about the same time as AASB 13.

The Board noted that the Department of Finance and Deregulation is undertaking a review of IFRS 13 with a view to compiling potential issues that could affect the Commonwealth from a public sector and not-for-profit perspective. No issues have yet been identified, but if any are identified it is expected that they will be provided to the AASB to consider in monitoring AASB 13.

Action:

Staff  
Chairman  
Board Members

## **Presentation of Items of Other Comprehensive Income**

Agenda item 4

The Board had before it:

- (a) a memorandum from Nikole Gyles and Latif Oylan dated 24 May 2011 (agenda paper 4.1)
- (b) an issues paper – (Pre-ballot Draft of *Presentation of Items of Other Comprehensive Income (amendment to IAS 1)*) [Confidential] (agenda paper 4.2); and

- (c) AASB Submission – IASB ED/2010/5 *Presentation of Items of Other Comprehensive Income* – dated 27 September 2010 [for information] (agenda paper 4.3).

The Board considered a number of issues in relation to the IASB's pre-ballot draft of *Presentation of Items of Other Comprehensive Income (mainly amendments to IAS 1)*. The Board noted that, if the final amending IFRS is consistent with the pre-ballot draft, there would be no reason for the Board not to make the relevant amendments to Australian Accounting Standards (mainly as amendments to AASB 101 *Presentation of Financial Statements*).

Based on agenda paper 4.2, the Board decided the following:

- (a) in relation to restructures of local governments, it would be appropriate to make an editorial amendment to paragraph Aus63.1 (but not amend paragraph Aus63.7) of AASB 3 *Business Combinations* – to make it clear that any gain or loss recognised in accordance with that paragraph should be recognised in profit or loss. In addition, the Board directed staff to undertake a detailed review of all other 'Aus' paragraphs and domestic Standards to determine whether other consequential amendments would be required for consistency with the imminent amendments;
- (b) it would be appropriate to make consequential amendments to paragraph 33 and the Illustrative Examples of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* for consistency with the amendments to AASB 101. These amendments should be effected through the adoption of the IASB amendments, rather than through the current post-implementation review of AASB 1049, in order to ensure operative dates are consistent;
- (c) after noting that the pre-ballot draft would not address some of the concerns expressed in the Board's submission on the IASB's related Exposure Draft (including the lack of a common principle for classifying items in profit or loss or other comprehensive income), to write to the IASB in response to its forthcoming consultation on future agenda topics to reiterate this concern and encourage the IASB to add a project to its agenda to address this topic; and
- (d) to proceed to a ballot draft if the final revisions to IAS 1 are not significantly different from the pre-ballot draft.

Action:

Staff

## Differential Reporting Framework

Agenda Item 5

The Board had before it:

- (a) A memorandum from Ahmad Hamidi dated 24 May 2011 (agenda paper 5.1); and
- (b) Differential Reporting Research Project - Brief Report by Consultants (agenda paper 5.2, tabled).

The Board received a presentation by the AASB research contractor Dr Brad Potter about the progress of the Differential Reporting Research Project.

The project was initiated to shed light on the following issues:

- (a) whether there is consistency in the characteristics of the population of non-reporting entities; and
- (b) the nature of the accounting policies adopted by non-reporting entities.

The consultants provided an explanation of their research methodology, the size and category of samples of lodged financial statements, the criteria used in assessing the characteristics of lodging entities and the quality of financial information. It was noted that samples of financial statements lodged with the Australian Securities and Investments Commission and other public registers have been selected for research and that these samples are expected to be representative of the population of lodged financial statements with a 95% confidence level.

Board members provided various comments on the research issues and the approach taken with a view to helping the research process. In particular, it was noted that:

- (a) information about reclassification of financial statements by entities from special purpose to general purpose (and vice versa) at year ends and the reason for such reclassification would help in understanding the degree of consistency in characteristics of non-reporting entities; and
- (b) union intensity might be seen as an indicator of the reporting nature of an entity

It was also noted that research findings may be useful to other regulators for deregulation purposes.

The Board acknowledged the consultants' research efforts carried out in conjunction with the AASB staff and requested similar periodic updates of the progress of the project throughout the implementation of the project.

Action:

Staff  
Consultants

## **Post-employment benefits**

### Agenda Item 6

The Board had before it:

- (a) a memorandum from Nikole Gyles dated 26 May 2011 (agenda paper 6.1);
- (b) a staff paper entitled Analysis of not-for-profit/public sector considerations for revised AASB 119 (agenda paper 6.2);

- (c) a confidential memorandum from Nikole Gyles and Ting Lin dated 26<sup>th</sup> May (agenda paper 6.3);
- (d) a staff paper entitled Analysis of submissions on ED 195R *Tier 2 Supplement to ED 195 Defined Benefit Plans (proposed amendments to AASB 119)* (agenda paper 6.4);
- (e) a staff paper entitled Submissions on ED 195R *Tier 2 Supplement to ED 195 Defined Benefit Plans (proposed amendments to AASB 119)* (agenda Paper 6.5);
- (f) a confidential staff paper entitled Analysis of differences between disclosure requirements proposed in ED 195R and the disclosure requirements in revised IAS 19 (agenda paper 6.6); and
- (g) a confidential staff paper entitled Additional analysis of differences between disclosure requirements proposed in ED 195R and the disclosure requirements in revised IAS 19 (agenda paper 6.7).

The Board considered not-for-profit implications of incorporating the forthcoming revised IAS 19 *Employee Benefits* into AASB 119. The Board decided it would:

- (a) retain paragraph Aus78.1:

“Aus78.1 Notwithstanding paragraph 78, in respect of not-for-profit public sector entities, post-employment benefit obligations denominated in Australian currency shall be discounted using market yields on government bonds.”
- (b) not include any additional not-for-profit/public sector amendments in the revised AASB 119; and
- (c) make consequential amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting* as recommended by staff to reflect the classification of ‘remeasurements of the defined benefit liability’ as ‘other economic flows’ and to remove references to the ‘corridor approach’. However in relation to AASB 1049, the Board requested staff to confirm with Australian Bureau of Statistics staff whether the changes to the calculation of the defined benefit obligation arising from amendments to IAS 19 gave rise to any additional issues that would need to be addressed as amendments to AASB 1049.

The Board also considered submissions on ED 195R *Tier 2 Supplement to AASB Exposure Draft ED 195 Defined Benefit Plans (proposed amendments to AASB 119)*:

- (a) based on the comments received from constituents, the Board decided to make one amendment to the proposals – to exclude disclosure by Tier 2 entities of information about the basis used to determine any deficit or surplus in the plan where an entity participates in a multi-employer defined benefit plan and accounts for the plan as if it were a defined contribution plan; and
- (b) the Board noted the comments made by a respondent that the proposed disclosure requirements would add significant complexity and costs to non-publicly accountable entities compared with that borne by similar structured overseas entities. The Board particularly did not agree with the respondent’s view that no decisions on RDR disclosures should be made until the IASB has

considered the related issues. Rather, the Board is of the view that considerations on the disclosure requirements for Tier 2 entities should be taken in a prompt manner so as to avoid onerous disclosure obligations that would otherwise be unnecessarily borne by Tier 2 entities. In addition, the Board considered that the proposed disclosure requirements for Tier 2 entities are significantly reduced compared with the requirements for Tier 1 entities without significantly affecting the benefit to users. The Board decided not to make any further disclosure amendments for Tier 2 entities as a result of the submission.

Finally, the Board considered implications for Tier 2 disclosures arising from differences between disclosures in ED 195R and the near final draft of the revised IAS 19. The Board decided to make amendments to the Tier 2 disclosure requirements as proposed in the staff paper (agenda paper 6.3); however none of these amendments were considered to result in additional disclosure being required by Tier 2 entities as compared with the proposals in ED 195R. Accordingly, the Board decided not to re-expose the Tier 2 disclosure requirements for the revised IAS 19 and therefore intends to proceed to a ballot draft on the assumption the near final draft of revised IAS 19 reflects the final outcome.

Action:

Staff

## **Presentation by the Chair of the Auditing and Assurance Standards Board**

### Agenda Item 7

The Board received a presentation from Merran Kelsall, Chairman of the Auditing and Assurance Standards board (AUASB), on international developments in auditing and matters of particular interest to the AASB. Ms Kelsall advised that as a result of the Global Financial Crisis (GFC), the role and relevance of the external audit is under scrutiny, particularly in Europe and the US. She advised that the International Auditing and Assurance Standards Board (IAASB) is of the view that its revised "Clarity" auditing standards, which have been adopted by Australia, have already addressed issues such as Accounting Estimates, that might otherwise have been areas of concern. The IAASB has also issued Consultation Papers in the following areas:

- (a) Financial Reporting and Disclosures. The AUASB held a roundtable to identify constituents' views and advised the IAASB that note disclosures are 'auditable'; however further guidance would be helpful, particularly for qualitative notes and complex areas of judgement, such as going concern, estimation uncertainty, and remuneration reports; and
- (b) Enhancing the Value of Auditor Reporting. The AUASB will hold a roundtable in June 2011 to discuss this paper, which canvasses amending the standard *Audit Report*, expanding *Auditor Commentary* to reduce the so-called 'information gap', and longer term possibilities of extending the scope of audit, to address the 'expectations gap'.

Ms Kelsall also discussed the IAASB task force project working on producing a framework for Audit Quality.



## Consolidation and Joint Arrangements

Agenda Item 8

The Board had before it:

- (a) a memorandum from Lisa Panetta and Clark Anstis dated 25 May 2011 (agenda paper 8.1);
- (b) a review of IFRS 10 *Consolidated Financial Statements* (agenda paper 8.2.1);
- (c) the AASB submission (March 2009) on IASB Exposure Draft ED 10 *Consolidated Financial Statements* (December 2008) (agenda paper 8.2.2);
- (d) IFRS 10 – Standard and Basis for Conclusions (agenda papers 8.2.3 and 8.2.4);
- (e) a review of IFRS 11 *Joint Arrangements* (agenda paper 8.3.1);
- (f) the AASB submission (January 2008) on IASB Exposure Draft ED 9 *Joint Arrangements* (September 2007) (agenda paper 8.3.2);
- (g) the AASB submission (May 2010) on IASB Exposure Draft ED 9 (agenda paper 8.3.3);
- (h) IFRS 11 – Standard, Basis for Conclusions and Illustrative Examples (agenda papers 8.3.4, 8.3.5 and 8.3.6);
- (i) a review of IFRS 12 *Disclosure of Interests in Other Entities* (agenda paper 8.4.1);
- (j) IFRS 12 – Standard and Basis for Conclusions (agenda papers 8.4.2 and 8.4.3);
- (k) a review of IAS 27 *Separate Financial Statements* (agenda paper 8.5.1);
- (l) IAS 27 (revised) (agenda paper 8.5.2);
- (m) a review of IAS 28 *Investments in Associates and Joint Ventures* (agenda paper 8.6.1);
- (n) IAS 28 (revised) (agenda paper 8.6.2); and
- (o) an extract from 'Analysis of Disclosure Requirements in AASB 12 *Disclosure of Interests in Other Entities* with a View to Determining Corresponding Tier 2 Disclosure Requirements' (tabled paper).

The Board considered a number of issues in relation to the new and revised IASB Standards, as follows:

- (a) in relation to IFRS 10, the Board discussed the use of the term 'returns' versus 'benefits'; the concept and application of de facto control and agency relationships; the effect of limited ownership interests; and the need for judgement in determining whether a reporting entity controlled another entity. The

Board decided that these issues are not so substantive as to cause the Board not to incorporate IFRS 10 into an Australian Accounting Standard;

- (b) in relation to IFRS 11, the Board considered two issues raised in its submission to the IASB in response to ED 9 that had not been addressed in IFRS 11. The first issue concerns the inconsistency in accounting for contributions of a subsidiary to a joint arrangement required by IAS 27 and Interpretation SIC-13. The second issue concerns foreign currency translation and diversity in the application of IAS 21 by parties that participate in a joint operation. The Board noted that the two issues were existing issues and that limited impact is expected; and
- (c) in relation to IFRS 12, the Board discussed its concern regarding the potentially onerous disclosures required by the Standard. The Board was particularly concerned with the extent of the disclosures required when an entity has an interest in an unconsolidated structured entity, an investment in a joint venture or an associate, or a subsidiary with non-controlling interests that are material to the group. The Board decided that the implementation of the Standard should be monitored and any significant issues should be brought to the attention of the IASB for it to consider in its post-implementation review of the Standards.

The Board was satisfied that the changes made by the IASB to the requirements of IAS 27 and IAS 28, as outlined in agenda papers 8.5.1 and 8.6.1, were appropriate.

The Board agreed to vote out of session to make the five Standards as Australian Accounting Standards – no Board member indicated an intention to oppose their adoption. If approved, the Board also decided to issue an Amending Standard addressing the consequential amendments to other Standards. The Standards will apply to annual reporting periods beginning on or after 1 January 2013, with early application permitted only by for-profit entities, for annual reporting periods beginning on or after 1 January 2005.

The Board decided that the Australian exemptions providing relief from consolidation and the equity method of accounting in certain circumstances are also to be included in the new Standards.

The Board considered reduced disclosure requirements relating to the disclosures required by IFRS 12, specifically the disclosures concerning interests in joint arrangements and associates. The Board decided to issue an Exposure Draft to address the reduced disclosure requirements in relation to IFRS 12. The Exposure Draft will be issued in due course.

Action:

Staff  
Board members

## Financial Instruments: Hedging

Agenda Item 9

The Board had before it:

- (a) a memorandum from Natalie Batsakis dated 24 May 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 9.1); and
- (b) presentation slides relating to the outcomes of the IASB's deliberation of issues raised by constituents in response to ED/2010/13 (agenda paper 9.2, tabled).

The Board received an update on the IASB's deliberation of issues identified in respect of ED/2010/13 *Hedge Accounting* based on constituent feedback. Issues considered include:

- (a) the proposal to account for the time value of options as an insurance premium;
- (b) whether a combination of options (that includes a written or net written option) should be eligible as a hedging instrument;
- (c) when to rebalance the hedge ratio; and
- (d) the proposal to prohibit voluntarily discontinuation of hedge accounting.

The Board also noted that the IASB held an education session on macro hedge accounting, at which no decisions were made. The IASB is expected to publish its Exposure Draft on macro hedge accounting in Q4 2011. The AASB decided that it would continue to monitor the work of the IASB and the FASB on this project.

Action:

Staff

## Financial Instruments: Impairment

Agenda item 10

The Board had before it:

- (a) a memorandum from Christina Ng dated 24 May 2011 (Agenda item 10.1); and
- (b) presentation slides relating to outcomes of the IASB and FASB's deliberation of issues raised by constituents in response to ED/2009/12 *Financial Instruments: Amortised Cost and Impairment* and the Supplement to ED/2009/12 *Financial Instruments: Impairment* (tabled agenda paper 10.2).

The Board received an update on the progress of the IASB and FASB's joint project Financial Instruments Impairment.

- (a) the overall feedback on the converged impairment model as proposed in the Supplement was that, respondents either preferred the IASB's time-proportionate loss only method or the FASB's foreseeable future loss only method—few respondents supported the proposed converged impairment model; and
- (b) a new approach taken by the IASB and the FASB as a step forward in response to the overall feedback on the Supplement. That is, the IASB and the FASB decided that variations of the converged impairment model as proposed in the Supplement should be developed. A possible variation is a combination of a time-based loss allocation and compulsory 12-month loss recognition, without the 'higher of' test as proposed in the Supplement. A form of 'incurred but not reported' loss method could also be considered.

The Board noted that the IASB aims to issue a revised version of IFRS 9 by the end of Q3 of 2011, instead of June 2011 as previously expected. The AASB decided that it would continue to monitor the work of the IASB and the FASB on this project.

Action:

Staff

## **Offsetting financial assets and financial liabilities**

Agenda item 11

The Board received a verbal report from staff and noted recent developments on the offsetting project, including an overview of the feedback being considered by the IASB on ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* and comments made at the Singapore roundtable attended by AASB staff.

## **Insurance contracts**

Agenda item 12

The Board had before it:

- (a) a memorandum from Lisa Panetta and Angus Thomson dated 24 May 2011 (agenda item 12.1); and
- (b) an issues paper – a broad outline of progress to date on Insurance Contracts (agenda paper 12.2).

The Board noted the matters raised in the issues paper, including the IASB's tentative decisions to-date. In particular, the Board focused on the issues of contract boundary, risk adjustments, the residual margin unit of account and presentation of some liability movements in other comprehensive income.

The Board agreed that it should express support for the IASB's tentative decisions on contract boundary and risk margins, and to express concern for its tentative decisions on residual margins and presentation of some liability movements in other comprehensive income, after discussing the issues with IASB member Warren McGregor.

Action:

Staff  
Chairman

## IPSASB Conceptual Framework

### Agenda Item 13

The Board had before it:

- (a) a memorandum from Mischa Ginns dated 24 May 2011 (agenda paper 13.1);
- (b) draft AASB submission on 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* (agenda paper 13.2);
- (c) draft AASB submission on IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* (agenda paper 13.3);
- (d) comment letters from New South Wales Treasury on the three IPSASB consultation documents to which the draft AASB submissions in (b), (c) and (e) relate (agenda paper 13.4);
- (e) draft AASB submission on IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements* (agenda paper 13.5); and
- (f) staff note entitled 'IPSASB Conceptual Framework Submissions—Sweep Issues' (agenda paper 13.6, tabled:).

In relation to its above-named draft submissions, the Board considered sweep issues arising from comment letters received and from its Subcommittee's review, and decided to make the following amendments:

- (a) each submission is to encourage the IPSASB to work as closely as possible with the IASB in developing Frameworks that differ (if at all) only to the extent necessary to address public-sector-specific issues, but each submission should be rephrased to emphasise the importance of complementary IPSASB and IASB Frameworks and avoid implying that the IPSASB Framework is subordinate to the IASB Framework;
- (b) the submission on Exposure Draft 1 is, in relation to the proposed exclusion of government business enterprises (GBEs) from the IPSASB Framework, to recommend that the IPSASB explains the nature of GBEs and clarifies the reasons for excluding them. This explanation should include an articulation of whether GBEs necessarily are for-profit entities and, if not:

- (i) the circumstances in which they would be not-for-profit entities (NFPs); and
  - (ii) why the IPSASB Framework should not apply to those NFPs;
- (c) the submission on the Elements and Recognition Consultation Paper is to:
- (i) encourage the IPSASB to develop definitions of, and recognition criteria for, the elements of financial statements that, consistent with (a) above, differ from the IASB Framework (if at all) from those of the IASB only to the extent necessary to address public-sector-specific issues;
  - (ii) emphasise more the AASB's view that factors associating an asset or liability with an entity should be treated as recognition criteria. This is integral to the AASB's view that definitions of those elements should be expressed generically. The Board noted that examples of factors associating a liability with an entity are: (a) whether the obligations are unconditional; and (b) whether the obligations leave the entity with no realistic alternative to avoid an outflow; and
  - (iii) clarify that the significance of a government's 'sovereign powers' to cancel or modify obligations to other parties is a recognition issue that is separate from how liabilities should be defined. The submission is to recommend that decisions about whether to recognise particular obligations as liabilities should be based on existing legislation; and
- (d) the submission on the Measurement Consultation Paper is to argue that the treatment of an entity's own credit risk in the measurement of liabilities is a standards-level, rather than a concepts-level, issue.

The Board considered and rejected a possible amendment to the draft submission on Exposure Draft 1 to advocate that the scope of general purpose financial reporting should exclude information about the achievement of service delivery objectives and anticipated service delivery activities and resource needs. The Board considered that it would be premature to make conclusions about the scope of financial reporting at this stage. The board noted that it agree with IPSASB's proposal that the scope of financial reporting should evolve in response to user's information needs; its concern with the IPSAB's proposals on scope is that they also need to include criteria for assessing how the scope of financial reporting should evolve.

The Board approved the submissions, incorporating the above-mentioned amendments, for finalisation via the Chairman.

Action:

Staff  
Chairman

## Leases

Agenda item 14

The Board had before it:

- (a) a memorandum from Kala Kandiah and Nikole Gyles dated 24 May 2011 (agenda paper 14.1); and

- (b) a slide presentation providing an *Update on the Leases Project - Joint IASB and FASB meetings* (agenda paper 14.2, tabled).

The Board received an update on the tentative decisions made on the leases project by the IASB and the FASB in the 17 May 2011 and 1 June 2011 meetings. The Board decided that none of those tentative decisions gave rise to any need to express formal concerns to the IASB. The Board also discussed whether consequential amendments would need to be made to AASB 1049 when the Australian Accounting Standard adopting the IFRS on leases is issued. The Board decided that if the Standard on leases:

- (a) includes an optional treatment for short-term leases, this treatment should be added to paragraph 14 of AASB 1049 as an example of an optional treatment; and
- (b) requires lessees to apply a single approach to account for all leases (i.e. recognise right-of-use assets and lease liabilities for all leases on balance sheet and interest expense and amortisation in profit or loss), this would give rise to GAAP/GFS differences that should be added to paragraph 42(a) of AASB 1049 as an example of GAAP/GFS differences that require disclosures of reconciliations and explanations of the differences.

The Board also directed staff to undertake further analysis on:

- (a) the IASB's decisions to date on leases and the direction the IPSASB is heading in relation to service concession arrangements from a grantor's perspective; and
- (b) whether NFP and public sector modifications should be made to AASB 117 *Leases* and the Australian Accounting Standard that is expected to incorporate the IFRS on *Leases* in relation to Crown lease arrangements, having regard to the requirements in AASB 1004 *Contributions* and the Board's project on Income of Not-for-Profit Entities.

Action:

Staff

## Revenue Recognition

Agenda item 15

The Board had before it:

- (a) a memorandum from Nikole Gyles and Kala Kandiah dated 24 May 2011 (agenda paper 15.1); and
- (b) slides providing an *Update on the Revenue Recognition Project - Joint IASB and FASB meetings* (agenda paper 15.2, tabled).

The Board received an update on the significant tentative decisions made by the IASB and the FASB in the May 2011 meeting on the Revenue Recognition project. The Board expressed concerns about the apparent inconsistency between the tentative decision that an entity recognises an asset for incremental costs that are

expected to be recovered and are not in the scope of another Standard, and the IASB's tentative decisions on similar matters in other projects.

The Board decided that staff should draft a letter to the IASB expressing the above concerns, to be approved and signed by the Chairman out of session.

Action:

Staff  
Chairman

## Income of Not-for-Profit Entities

### Agenda Item 16

The Board had before it:

- (a) a memorandum from Jim Paul dated 25 May 2011 (agenda paper 16.1); and
- (b) a draft Basis for Conclusions for an Exposure Draft (ED) on Income of Not-for-Profit Entities (NFPs) (agenda paper 16.2)

The Board considered the draft Basis for Conclusions on the ED it is developing on Income of NFPs, noting that this ED is being developed as a result of the Board's redeliberations of its proposals in AASB ED 180/FRSB ED 118 *Income from Non-exchange Transactions (Taxes and Transfers)*, having regard to the submissions received on that ED. The draft revised ED is broadly based on the IASB's work in developing an IFRS on *Revenue from Contracts with Customers*, but modified where necessary to address NFP-specific issues. At this meeting, the Board decided:

- (a) to confirm its previous tentative decisions reflected in the draft Basis for Conclusions;
- (b) that the ED should apply to income of NFPs rather than only to their revenue; and
- (c) that performance obligations of NFPs should be measured at the fair value of the promised goods or services, using the fair value hierarchy in forthcoming AASB 13 *Fair Value Measurement*. Where stand-alone selling prices of promised goods or services (and hence of the performance obligation) cannot be observed or estimated reliably, the best indicator of the performance obligation's fair value may be the amount determined by applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

The Board discussed issues regarding whether the IASB's proposed criteria and methodology for recognising liabilities for onerous contracts should be applicable to NFPs. The Board did not make a decision on this topic, but identified issues to be addressed in a staff paper for consideration at a future meeting. Those issues include:

- (a) the potential that an 'onerous contract' test would apply at a whole-of-entity level, and the practical implications of applying the test at that level;



- (b) whether to replicate the FASB's tentative decision not to apply an 'onerous contract' test to contracts of NFPs entered to provide social benefits or for a charitable purpose; and
- (c) the implications of first applying an impairment test, in conformity with the proposed IFRS on *Revenue from Contracts with Customers*, when, under AASB 136 *Impairment of Assets*, NFPs measure an asset's value in use at depreciated replacement cost when the asset's future economic benefits are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits. The significance of this issue is that NFPs would measure a liability for an onerous contract by reference to net cash outflows after recognising impairments that may be measured on a basis other than net cash flows.

A Board member commented that sometimes an obligation arises from an event within an agreement with another party, and requested staff to address that issue in the revised draft Basis for Conclusions.

The Board decided to continue to monitor the IASB's deliberations on its project to develop an IFRS on *Revenue from Contracts with Customers*. It directed staff to draft an ED that is updated for IASB decisions as they are made, and to add examples of key transaction types (such as advance payments and multi-year grant arrangements) to illustrate the decisions set out in the draft Basis for Conclusions.

The Board decided to progress the project without delay, despite the restructure of New Zealand standard setting arrangements, and will inform the New Zealand External Reporting Board (XRB) in due course of progress toward developing a revised ED. The Board directed staff to keep XRB staff informed of developments on a timely basis.

A Board member commented that the treatment of grants and other transfers by transferors is an important issue in the public sector, in relation to which treatment by transferors and transferees is sometimes asymmetric. The Board confirmed that this issue is outside the scope of its current project on income of NFPs, and will consider at a future date whether to initiate a project on this issue. The Board noted that the outcome of its project on income of NFPs will provide valuable input into any future project on transferor accounting for transfers.

Action:

Staff

## Interpretations Update

Agenda Item 17

The Board had before it:

- (a) a memorandum from Raymond Yu, Mischa Ginns and Shu In Oei dated 24 May 2011 (agenda paper 17.1);
- (b) a staff paper entitled Interpretations – Issues in progress (12 April 2011) (agenda paper 17.2);

- (c) May 2011 *IFRIC Update* (agenda paper 17.3);
- (d) a staff issues paper on IAS 16 *Property, Plant and Equipment*—accounting for stripping costs in the production phase of a surface mine (agenda paper 17.4);
- (e) Draft Interpretation IASB DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (agenda paper 17.5); and
- (f) revised Draft Interpretation of IASB D1/2010/1 (IASB staff paper) (agenda paper 17.6).

The Board received an update on the IFRS Interpretation Committee's current projects. In relation to the Committee's stripping costs project, the Board decided to write to the Committee highlighting some apparent inconsistencies between the revised Draft Interpretation of DI/2010/1 *Stripping Costs in the Production Phase of a Surface Mine* (dated May 2011), and IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*. The letter will also query whether the draft Interpretation would meet its intended purpose, on the basis that its principles are already evident in IAS 2 and IAS 16. The letter will be finalised and approved out of session by the Chairman.

The Board was informed of a request that staff received from IASB staff (on behalf of the IFRS Interpretations Committee) to find out whether, in different jurisdictions, it has proved difficult for entities to recognise a liability for taxes that are not income tax (in particular, what determines the obligating event) and what analysis has been conducted based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*, to determine the obligating event. The request was to clarify whether, under certain circumstances, IFRIC 6 should be applied by analogy to other levies charged for participation in a market on a specified date to identify the event that gives rise to a liability. The Board noted that staff responded to the request based on feedback obtained from consulting with a number of Big 4 firms, that staff are not aware of any significant concerns regarding the issue in Australia.

Action:

Staff  
Chairman

## Emerging Issues

### *Implications of the IASB's SME's Implementation Group (SMEIG) Guidance*

#### Agenda Item 18

The Board had before it four draft documents published by the SMEIG:

- (a) Q&A *Use of IFRS for SMEs in parent's separate financial statements* (agenda paper 18.1);
- (b) Q&A *Captive insurance subsidiaries* (agenda paper 18.2);
- (c) Q&A *Interpretation of 'traded in a public market'* (agenda paper 18.3); and

- (d) Q&A *Investment funds with only a few participants* (agenda paper 18.4).

The Board noted concerns raised by constituents and staff about the status and impact of guidance to be issued by the SMEIG.

The Board noted that Guidance that only relates to the *IFRS for SMEs* need not concern Australian Tier 2 entities because Tier 2 Standards are issued by the AASB following an independent due process. However, the Board decided staff should communicate with the SMEIG, IASB and the IFRS Interpretations Committee, noting that some aspects of the draft Q&As go beyond *IFRS for SMEs* and could have implications for IFRS adopters (such as providing an interpretation of 'traded in the market') and emphasise that any matters that could have implications for IFRS adopters should be addressed through the normal IASB due process.

The Board also decided to maintain a watching brief on any future SMEIG Q&As.

Action:

Staff

## Other Business

Agenda Item 19

The Board had before it:

- (a) ASRB *Communique*, 2011/5 – 13 May 2011 (agenda paper 19.1);
- (b) a letter from the AASB Chairman to the Australian Securities and Investments Commission dated 13/5/2011 re: ASIC Consultation Paper 150: *Disclosing Financial Information Other Than in Accordance with Accounting Standards* (agenda paper 19.2);
- (c) a letter from the AASB Chairman to the IASB Chairman dated 9/5/2011 re Recent tentative decisions on *Leases* project (agenda paper 19.3);
- (d) a letter from the AASB Chairman to the IASB Chairman dated 9/5/2011 re Recent tentative decisions on Revenue Recognition project (agenda paper 19.4);
- (e) memorandum from Robert Keys and Ting Lin dated 24/5/2011 regarding the AASB work program (agenda paper 19.5);
- (f) AASB Work Program (May 2011) (agenda paper 19.5.1);
- (g) A summary of AASB Work Program (May 2011) (agenda paper 19.5.2);
- (h) Submissions Pipeline Report of documents open for comment (agenda paper 19.5.3);
- (i) IASB *Update*, 4 May 2011 (agenda paper 19.6);
- (j) AASB Sub-committee membership at 28 April 2011 (agenda paper 19.7, tabled);

- (k) a letter from the AASB Chairman to the IASB Chairman dated 28/4/2011 re IASB ED/2011/1 *Offsetting Financial Assets and Financial Liabilities* (agenda paper 19.8, tabled);
- (l) extract from the *National Accountant* June/July 2011 "Conversation with Sir David Tweedie (agenda paper 19.9, tabled);
- (m) draft AASB Business Plan – 2011-2012 (agenda paper 19.10, tabled);
- (n) a letter from the AASB Chairman to the International Valuations Board (IVPB) Chairman dated 3/6/2011 re IVSC ED proposed Technical Information Paper 2 *Depreciated Replacement Cost* (agenda paper 19.11, tabled);
- (o) a letter from the AASB Chairman to the IASB Chairman dated 6/6/2011 re IAS 41 *Agriculture* (agenda paper 19.12, tabled);

The Board noted the agenda papers.

### *AASB work program*

Agenda papers 19.5 – 19.5.2

The Board requested improvements to the presentation of these documents, particularly the summary.

In relation to item 16 of Table One of the work plan (agenda paper 19.5.1), the Board decided that the IASB ED on Investment Companies should not be issued in Australia prior to the AASB having an in session opportunity to consider the content of an Australian preface.

Action:

Staff

### *Business Plan*

Agenda paper 19.10

The Board noted the tabled draft Business Plan – 2011-2012 and agreed to consider it with a view to providing comments to staff by 27 June 2011. Staff will also email the draft to members.

The Board noted that a revised draft would be considered at the July Board meeting.

Action:

Staff  
Board members

## **Board Review**

Agenda Item 20

The Board commented favourably about the improved presentation of papers and expressed support for short memoranda concentrating on required decisions and major concerns, supported by supplementary detail or, where appropriate, a slide style presentation. Consistency was requested in the placing in each paper of the specific issues to be addressed.

Tabled papers were requested to be presented as a collated pack, but tabling should be restricted to matters that are for noting as 'other business', slide presentation packs, or very short papers that clearly identify decisions required of the Board.

## **Close of Meeting**

The Chairman closed the meeting at 1.00 p.m. on Thursday 9 June 2011.

## **Approval**

Signed by the Chairman as a correct record  
this thirteenth day of July 2011